Non-Financial Information Disclosure and Communication in Large UK Companies

A thesis submitted in part fulfilment of the requirements for the degree of Doctor of Philosophy

Sepideh Parsa

Middlesex University Business School

August 2001

ACKNOWLEDGEMENTS

I would like to express my gratitude to a range of people who supported me during the course of this research. Firstly, I am would like to thank my supervisors, Dr. Reza Kouhy and Professor Jonathan Liu, for their encouragement, advice and guidance. I would also like to express my gratitude to our Director of Research, Professor Abby Ghobadian, for his support and technical recommendations. I would also like to thank Dr. Peter Southwood and Professor Philip James for their recommendations. The financial support of Middlesex University Business School is gratefully acknowledged.

Last, but not least, I would like to thank my parents and my brother, Arash, for their endless love and support over the past few years.

TABLE OF CONTENT

CHAPTER 3 CORPORATE LEGITIMIZATION AND STAKEHOLDERS' REQUIREMENTS: CLASSIFICATION OF NON-FINANCIAL INFORMATION, CORPORATE CHARACTERISTICS, AND QUALITY OF NON-FINANCIAL INFORMATION 64

CHAPTER 4 METHODOLOGICAL ISSUES 108

TABLE OF FIGURES

LIST OF TABLES

LIST OF APPENDICES

ABSTRACT

This study aims to investigate the disclosure of non-financial information by UK companies in the absence of regulatory and statutory requirements. The study focuses on answering two key questions: (1) whether UK companies disclose non-financial information to legitimise their corporate behaviours to their stakeholder groups, and (2) whether UK companies disclose non-financial information to meet the information requirements of their stakeholder groups.

To start this study, traditional theories and concepts used in the accounting literature are reviewed. The researcher takes the view that among the existing theories and concepts, legitimacy and stakeholder theories provide the best explanation for the disclosure of non-financial information by UK companies. While the arguments presented by the proponents of the legitimacy theory is used to explain how companies may disclose information to present themselves as having the same norms and values as those of the society, the arguments in support of the stakeholder theory are used to highlight the existence of different stakeholder groups and how companies attach different importance to them. The author takes the view that if companies disclose non-financial information to their stakeholder groups, they should do so regardless of their corporate characteristics. To explore the reasons for the disclosure of non-financial information further, the quality of the disclosed non-financial information is heeded by considering two characteristics of 'Social and Ethical Accounting, Auditing and Reporting' (SEAAR), namely stakeholder identification and stakeholder dialogue. It is argued that if companies disclose information to meet the requirements of their stakeholder groups, they are expected to: (1) identify their stakeholder groups, and (2) hold dialogue with them.

Before starting the empirical investigation, methodological issues that are believed to be relevant to this research project are discussed wherein non-financial information categories are divided into two groups of governance and non-governance. While governance information encompasses information categories on corporate managerial structures, non-governance information categories are on non-managerial aspects of companies and can be related to both external and internal matters. Having decided on the non-financial information categories, the level of non-financial information disclosed by the Top 100 UK companies is measured for 1985, 1990 and 1995. The findings show that the level of information disclosure had increased in terms of both governance and non-governance information categories from 1985 to 1995.

The thesis proceeds by probing the two key questions. The question of whether companies

disclose non-financial information to legitimise their behaviours is investigated by choosing a number of corporate characteristics and examining if either of these characteristics is associated with the level of non-financial information disclosed by UK companies. The observation of association between any of the corporate characteristics and the level of non-financial information disclosure is used to demonstrate how companies divulge information to legitimise those aspects of behaviours that are closely linked to their characteristics. The question of whether companies report non-financial information to meet the information requirements of their stakeholders' groups is probed using questionnaire surveys. The questionnaires were sent out to companies and two stakeholder groups, namely investors and employees. The responses received from the three groups cast light on stakeholder identification and the state of stakeholder dialogue.

According to the findings of this study, a number of corporate characteristics were associated with the disclosure of non-financial information illustrating that UK companies disclosed information to legitimise their behaviours to their stakeholder groups in the absence of any regulatory and statutory requirements. This was particularly the case for non-governance information. The findings also suggest that UK companies attached more importance to their investors than to their employees and they met the information requirements of their investors despite holding a relatively higher level of dialogue with their employees.

CHAPTER 1 INTRODUCTION

1.1 BACKGROUND

In the late 1980s, large volumes of information about UK companies, relating to various environmental issues[1], were brought to public attention by the media, politicians, and other commentators. At the same time, there was a rising public awareness of social issues[2], with public opinion becoming greener and more socially concerned. At the same time, it was increasingly evident to some that the value of a company should not necessarily be perceived as its 'wealth' for its shareholders. For instance, Taylor (1988) agreed that Japanese or European companies or any successful British companies, such as Sainsbury or Marks and Spencer, did not perceive 'wealth creation' as their prime objective. According to Taylor, a company had to consider four stakeholder groups[3] whose loyalty would result in corporate prosperity. The four groups were shareholders, employees, customers and suppliers.

Traditionally, the focus has been mainly on the disclosure of financial information which is in the interest of those interest groups with whom companies hold economic contracts[4]. Over the years the importance attached to other interest groups was recognised and corporations were gradually being seen as collection of long-term

---

[1] For instance, recycling was recognised to be a matter for the Department of trade and Industry. The Scottish and Welsh offices also appeared to have large powers over their own environments. In July 1989, the secretary of state for environment, Mr Ridley, persuaded a reluctant Mrs Thatcher to set up and chair a cabinet committee to draw up a government White paper on the environment by the Autumn of 1990. Following water privatisation, Mr Ridley set up a separate national River Authority with the job of enforcing environmental standards on the water companies.

[2] See the poll carried out by 'Market and Opinion Research International', commonly known as MORI, - The Economist 08 Sept. 1990, "Survey of Industry and The Environment (2): Spend a pound and save the planet - How shoppers are turning companies green"

[3] A stakeholder is anyone whose welfare is tied up in a company - such as bondholder, an employee, a customer, a supplier or a member of its local community.

[4] Economic contract is an explicit contract with expressed terms and conditions.

contracts between shareholders and stakeholders. Most of these contracts were 'implicit' and often referred to as 'social contracts'[5].

Social contract was first mentioned by the accounting profession in the *Corporate Report* (ASSC[6], 1975). Although the Report did not explicitly acknowledge 'social contract', it underlined related issues. For instance, the responsibility to report to the general public on issues, which were not required by law, was raised by the *Report*. It identified that the users of information have a reasonable right to information about the corporation. The *Hampel Report* (Committee on Corporate Governance, 1998) is one of the latest attempts by the accounting profession to draw attention to the non-financial aspects of companies. Even though the *Hampel Report* was published 23 years after the publication of the *Corporate Report* (ASSC, 1975) during which time the volume of non-financial information had grown considerably, the report was still too comprehensive to provide any detailed guidelines to contribute to the quality of non-financial information.

The 1990s can be associated with the increasing concern raised at a more general level by commentators such as Hutton (1997), who called for the development of a 'stakeholding economy' premised on the concept of 'inclusion'. According to Hutton (1997) inclusion entails membership and:

> "... obligations as well as rights. So a stakeholder society and a stakeholder economy exist where there is a mutuality of rights and obligations constructed around the notion of economic, social and political inclusion." (p3)

---

5 Social contracts are based on trust (Shleifer and Summers, 1987). A breach of these implicit contracts, such as when new owners fired the workers they no longer needed, meant that non-shareholding stakeholders were no longer able to trust the managers. This was often followed by long-term cost implications.

6 ASSC stands for *Accounting Standards Steering Committee.*

Thus, by the early 1990s, a key issue in the UK was "in whose interest should a company be run?" If companies were run in the interests of stakeholders, the difficult question of (a) what degree of congruence and of mutual benefit existed between the interests of shareholders and those of other stakeholders and (b) how companies discharged their accountability to their stakeholders, are raised.

With the rising level of non-financial information, the 'quality' of non-financial information was becoming more questionable, particularly, in the absence of regulatory requirements. The increasing volume of non-financial information disclosed by companies could be easily used for image making purposes (Harte and Owen, 1991), leading companies to disclose large volumes of discursive non-financial information with little attention being paid to the 'quality' of the disclosed information (Adams, Hill and Roberts, 1995). This would conflict with the idea of a stakeholder economy, which was inclusive of all stakeholders.

1.2 THE LITERATURE

In the 1970s a large volume of the accounting literature deviated from the conventional accounting and concentrated on, what was regarded as, 'corporate social responsibility'. These studies, which were mainly empirical in nature, assessed the relationship between corporate social responsibility and a range of financial aspects using relatively basic statistical techniques. Different studies focused on examining the association between different corporate characteristics ranging from corporate size, industrial affiliation, growth and corporate performance (see Table 3.6 in *Chapter 3*). Most of these studies, in the author's view, did not offer any conclusive findings and had generally weak theoretical foundations.

By the 1980s a large volume of the literature was developed on environmental accounting, diverting the focus from social accounting. Most studies in this period provided sophisticated theoretical concepts and critical approaches along with more precise and detailed technical analysis. A large proportion of the literature was developed based on the literature from other disciplines allowing academics to recognise the significance attached to social, economic and political factors from the external environment and how these factors could be applied in explaining the disclosure of social and environmental information[7].

The literature developed further in the 1990s. Issues related to the 'quality' of social and environmental information were raised in the form of 'social audit' and what is commonly known as 'social and ethical accounting and auditing and reporting' (SEAAR). Although the issue of quality was addressed in the late 1990s, early studies had raised the question of the credibility of the non-financial information disclosed and corporate accountability to the public in the absence of any external standards (Harte and Owen, 1991). Social audit, which examines the social and ethical impacts of corporate operations on those affected (Zadek and Evans, 1993), emphasizes the voice of stakeholder groups.

Despite the emphasis on political, economic and social factors in the 1980s and the development of social audit in the 1990s, most of the focus yet remained on environmental and social information with little attention being paid to other non-financial aspects. For instance, corporate governance structure is one of the non-financial aspects that could be affected by external factors and by stakeholder groups

[7] The launch of a number of prominent journal in which most literature was published took place in the 1980s. These journals are: *Accounting, Auditing, and Accountability Journal* (AAAJ, 1988), the *Journal*

(Luoma and Goodstein, 1999) as well as playing a significant role in including stakeholders. While some US studies drew attention to how the inclusion of stakeholder groups needs to be followed by the changes in the corporate governance structures (Donaldson and Preston, 1995; and Freeman and Evan, 1990), the inclusion of stakeholders in corporate governance structure has remained an under-developed subject in the UK. Most UK studies in the field of corporate governance examine the subject from investors' viewpoints rather than those of other stakeholders (Short and Keasey, 1997; Mallin, 1995; and Whittington, 1993; among many others).

Concern over corporate governance is raised by Owen, Swift, Humphery and Bowerman (2000) who state that:

> " ... without real change in corporate governance structures, social audit could become monopolized by consultants and/or corporate management and hence amount to little more than a skilfully controlled public relations exercise" (p81)

Mathews (1997), who reviewed the literature for the past 25 years, highlighted the need for more interdisciplinary approaches and, amongst many of his suggestions for future research, he recommended further research to investigate the reasons:

> "... why management authorizes the accounting function to produce social and environmental information, even when the accounting profession does not show any interest. Some of the possible reasons include the social contract, organizational legitimacy, and attempts to impress the capital markets ..." (p504)

Another issue which has been recently raised by academics is the danger of SEAAR falling under the control of the management and being used to serve managerial purposes rather than fulfilling its original purpose, which is discharging accountability

---

of Accounting and Public Policy (*JAPP*, 1982), and *Critical Perspectives in Accounting* (*CPA*, 1990).

to stakeholders[8]. In a recent study by Ball, Owen and Gray (2000), the authors raised concern on whether environmental audit would answer these concerns for external transparency and accountability. They state that:

> " ... there is no evidence of the verifier ... attempting to address the concerns of external constituencies in performance" (Ball *et al*, 2000: p19).

They continue by highlighting that:

> "verifiers do not make recommendations that address failings in performance and in some cases, distance themselves from this responsibility" (ibid., p19).

In order to provide an overview on the development of social and environmental literature, Figure 1.1 presents a brief summary of the major events in the 1980's and 1990's. Figure 1.1 shows that in the 1980's, there was a rise in the public awareness of social and environmental issues. This was followed by the development of the social and environmental accounting literature in the late 1980s. It was during this period that companies appeared to disclose increasing levels of non-financial information (as will be shown in *Chapter 4*). By 1990's, the academic literature had developed further and had entered into the new phase of social audit. It was during this period that concerns were raised over the issues such as the quality of non-financial information, stakeholder identification, stakeholder dialogue and corporate transparency.

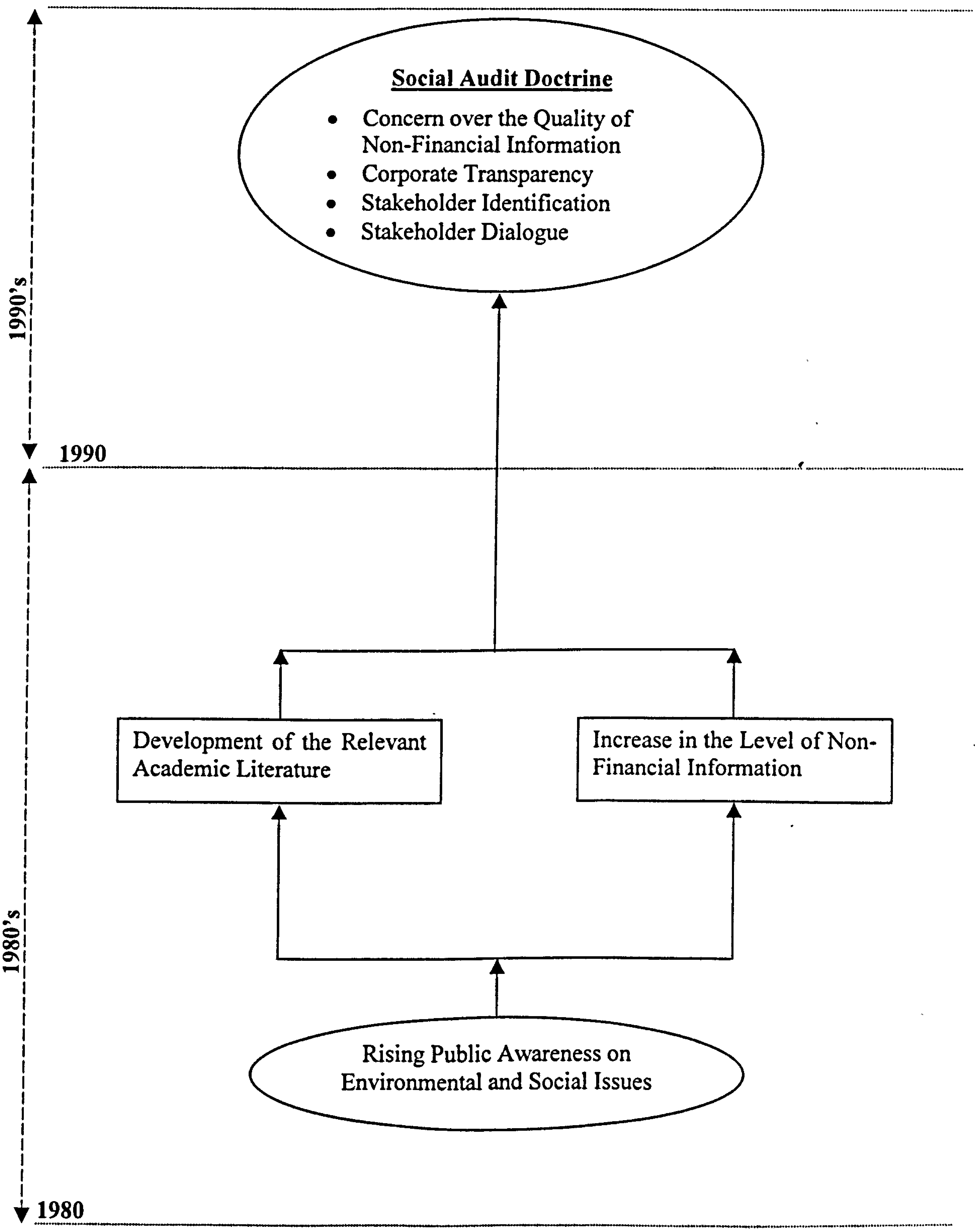
In the author's view, corporate communication with their stakeholders is not enough to ensure that companies are being held accountable to their stakeholder groups. Evidence is required to suggest that managers seek the views of their stakeholder groups as part of

---

[8] See Ball, Owen and Gray (2000).

their decision making process. The future literature needs to expand beyond the environmental and social accounting to address how corporate governance structures can play a more significant role in including stakeholders' views and their issues. This requires the application of more interdisciplinary approaches including the use of literature in strategic management (Mathews, 1997).

FIGURE 1.1 MAJOR EVENTS IN THE 1980S AND 1990S



1.3 THE IMPORTANCE OF THIS STUDY

Unlike most previous studies that focused on either social or environmental reporting, this current study concentrates on the disclosure of 'non-financial information', which is a considerably broader term than both environmental and social information. By non-financial information, this study refers to those information items that are disclosed externally on the non-financial aspects of companies. This study divides non-financial information into two main groups of 'governance' and 'non-governance' information. While governance information embraces managerial issues and deals solely with internal matters of companies, non-governance information is on those non-managerial issues that are concerned with both internal and external matters. As it will be discussed later on in *Chapter 3*, many of the *non-governance* information categories are commonly regarded as social information in the literature. The two groups are selected, as they are believed to be closely linked. In *Chapter 3*, the link between the two information categories is discussed.

This study carries out investigation on the disclosure of non-financial information for 1985, 1990 and 1995. The choice of these three years can be regarded as one of the significant aspects of the study. Significant changes took place between 1985 and 1995. While 1985 represents the mid 1980s, when public awareness on environmental and social issues rose considerably, 1995 represents the mid 1990s, the period during which stakeholding was a popular concept and there was development in social audit literature. Furthermore, the period between 1985 and 1995 coincides with the major developments in recommendation of the best governance practice in the UK. Therefore, companies' governance structures were expected to become more transparent after the publication of the first regulatory governance code of best practice (*Cadbury Committee*, 1992).

The statistical analysis of collected data over the three year period provides useful information to determine on whether the major UK companies disclose information to legitimise their behaviours. While most of the previous studies in this field concentrate on isolated incidents or specific companies (this is shown in Table 2.1 - section 2.3.1), the findings of this study are used to illustrate whether the major UK companies use non-financial information to legitimise their behaviours to their stakeholder groups. To the knowledge of the author, this study is the first that does not concentrate on isolated incidents or on specific companies, and uses companies in the Top 100 to project a comprehensive picture on how the disclosure of non-financial information may be used for legitimacy purposes by the UK companies.

The selection of the Top 100 major UK companies, which were from different industrial backgrounds, can be regarded as another distinguishing aspects of this study. The reason for the selection of the Top 100 UK companies was because the major changes are most likely to take place among the Top 100 companies. If UK companies are to discharge their accountability to their stakeholder groups in the absence of any legal or regulatory requirements the findings of this study would cast light on two important issues. The findings of this study are expected to enable us to have better understanding of (a) if UK companies disclose non-financial information to legitimise their behaviours to their stakeholders, and (b) if UK companies meet the information requirements of their major stakeholders by paying attention to the 'quality' of non-financial information they disclose.

1.4 AIMS AND OBJECTIVES

The overall aim of the study is to fill the gap in the existing knowledge of why companies disclose non-financial information in the absence of any regulatory requirements or any recognition by the professional bodies. Despite arguments in favour of stakeholder inclusion by commentators such as Hutton, the author believes that stakeholder inclusion would not be compatible for UK companies. An effective way of taking account of stakeholders' views is to allow stakeholders' representatives in corporate governance structures so that they can inform managers of their views and interests as well as becoming informed of companies' operations. This, however, is not the case in the UK. Furthermore, there are no regulatory requirements for the disclosure of non-financial information imposed on UK companies. In such circumstances, companies are highly unlikely to meet the information requirements of their stakeholders. Instead they are expected to disclose non-financial information to legitimize their corporate behaviour to their stakeholders.

The overall aim of this study is to investigate:

> Why the major UK companies disclose non-financial information in the absence of any recognition by the accounting profession and the regulatory bodies. In order to examine this, investigation is carried out: (i) to assess if companies disclose non-financial information to legitimise their corporate behaviours, and (ii) to find evidence if companies pay any attention to the quality of non-financial information.

The investigation of the above aim would require the application of appropriate and relevant theoretical frameworks and perspectives. This is discussed in details in *Chapter 2*. Having selected an appropriate theoretical framework, the two key research questions, derived from the gaps highlighted in the existing literature that need to be answered, are as follows:

Key Research Question 1

> *"Do companies disclose non-financial information to **legitimise** their corporate behaviours to their stakeholder groups?"*

To explore the first key research question, certain corporate characteristics such as size, growth, industrial affiliation, and corporate performance are chosen (in *Chapter 3*) to test if non-financial information disclosure is associated with either of the selected characteristics. The second key research question expands the first key research question and is presented as follows:

Key Research Question 2

> *"Do companies disclose non-financial information **to meet the information requirements** of their stakeholder groups?"*

The second key research question is concerned with the 'quality' of non-financial information and whether companies pay any attention to 'quality' so that they could meet the information requirements of their stakeholder groups.

Supporting research questions are posed for each of the key research questions 1 and 2. These supporting research questions are derived from the existing literature and are discussed in *Chapter 3*. For the first key research question, supporting research questions 1 to 4 are presented as follows:

Supporting Research Question 1

> *"Are there any associations between **industrial affiliation** and the level of non-financial information disclosed by the major UK companies?"*

Supporting Research Question 2

> *"Are there any associations between **corporate size** and the level of non-financial information disclosed by the major UK companies?"*

Supporting Research Question 3

> *"Are there any associations between **corporate growth** rate and the level of non-financial information disclosed by the major UK companies?"*

Supporting Research Question 4

> *Are there any associations between **corporate performance** and the level of non-financial information disclosed by the major UK companies?"*

While supporting research questions 1, 2 and 4 are based on the existing accounting literature, to the knowledge of the author no previous study was found in the field of accounting to relate to supporting research question 3.

The second key research question is explored using the following supporting research *questions*:

Supporting Research Question 5

> *"Do companies **identify** their **stakeholder** groups according to their importance?"*

Supporting Research Question 6

> *"Are there any **dialogues** between companies and their stakeholders?*

The two supporting research questions 5 and 6 are based on two of the five common aspects of 'social and ethical accounting, auditing and reporting' (SEAAR). These two aspects are 'stakeholder identification' and 'stakeholder dialogue' respectively. The reasons why only two of the five common aspects of SEAAR are selected are discussed in details in *Chapter 3*.

1.5 CONTRIBUTION TO KNOWLEDGE

To the knowledge of the author, no previous study was designed to investigate and subsequently to provide empirical evidence to show if the major UK companies disclosed non-financial information to legitimise their behaviours to their stakeholder groups. As mentioned earlier in section 1.3, while most of the previous studies concentrated on isolated incidents or on particular companies, the findings of this study provides an overall answer as to whether the major UK companies disclose non-financial information to legitimise their corporate behaviours. The fact that this study investigates this question by assessing the possibility of any associations between the level of non-financial information disclosure and different corporate characteristics enables us to broaden our understandings of why non-financial information is disclosed by UK companies in the absence of any legal or regulatory requirements.

The findings of this study would also provide evidence on the changing level of non-financial information disclosed by the major UK companies in 1985, 1990 and 1995, the years during which major developments in social and environmental studies took place along with the rising public awareness on environmental issues. In addition this study can be regarded as one of the first studies that considers governance information disclosed by UK companies and provides evidence on whether there was any difference between governance and non-governance information disclosed by UK companies. Disclosure of non-financial information for legitimacy purposes would be assessed in terms of both governance and non-governance information. Considering that the regulatory recommendations on corporate governance were introduced by the early 1990s, the evidence for each of the three years provides interesting findings nurturing our understanding of whether the introduction of regulatory requirements on the disclosure of governance information had any impacts on the way companies disclosed information.

While the first key research question raises our understanding of whether UK companies disclose non-financial information to legitimise their corporate behaviours, the findings on the second key research question would extend our knowledge by providing evidence on whether UK companies pay any attention to the quality of the non-financial information they disclose to their stakeholders. There is a very limited bank of knowledge on whether the major UK companies pay any attention to the quality of non-financial information. This study contributes to our existing knowledge by providing evidence on whether UK companies recognised their stakeholders and if they had any procedures for attaching different importance to them. The results would also determine if companies treated their stakeholder groups differently and provided their stakeholders with information they required.

This study would present evidence indicates whether UK companies pay any attention to the 'quality' of non-financial information. The evidence would then shed light on the question whether there were any indications of UK companies becoming more transparent as suggested in the sustainability argument of Elkington (1999).

1.6 Brief Outline of the Thesis

The whole structure of this thesis is presented in Figure 1.2. In *Chapter 1* an overview of the research project is presented by providing a background to and explaining the importance of the study. The chapter was continued by discussing the overall aim of this study. This was followed by briefly introducing the two key research questions and the six supporting research questions. Contribution to the knowledge was discussed in section 1.5.

The literature review of this thesis is carried out in two parts. The first part, which is presented in *Chapter 2*, provides a broader review of the accounting literature and pays specific attention to the existing theoretical frameworks. As a consequence the two key research questions which highlight the gaps in the existing literature are presented in *Chapter 2*. The second part of the literature review, presented in *Chapter 3*, focuses on the narrower part of the literature and concentrates on the review of the existing empirical literature. Based on the literature review carried out in *Chapter 3*, six supporting research questions are presented to explore the two key research questions.

Chapter 2 provides a chronological review of the existing literature starting with the earliest accounting frameworks. The first part of the chapter provides a critical review of the development of conventional accounting theories. The second part of the chapter reviews the literature on theoretical frameworks used recently in social and environmental reporting literature. Discussions and arguments are presented to provide the theoretical justification relevant to this study. Based on the existing gaps in the literature, the two key research questions 1 and 2 are presented.

Chapter 3 comprises three main sections. In section 3.2 discussion is offered to illustrate why in this study non-financial information is divided into two groups of governance and non-governance information. The information categories included in each group are subsequently presented and, where appropriate, the relevant literature is reviewed and discussed to explain why each category was considered. The chapter was then continued by reviewing the relevant literature on four corporate characteristics (i.e. industrial affiliation, size, growth and performance). Based on the literature review carried out in section 3.3, four supporting research questions are presented to explore the first key research question. The empirical findings of the previous studies provides grounds to form expectations on the findings of each research question. The chapter is then continued in section 3.4, where the relevant literature is discussed leading to the presentation of supporting research questions 5 and 6. These two supporting research questions are posed to explore the second key research question.

In *Chapter 4* methodological issues are presented and discussed. This chapter comprises two main parts. In the first part, which is discussed in section 4.2, methodology selected for this research is presented. This is done by providing a review of the common methodological concepts that are used in social sciences. It is explained why one method is chosen over another for this research project. The second part of the chapter is presented in sections 4.3 to 4.9, where appropriate data collection methods are selected. This is followed by a discussion on the selection of appropriate data sources, methods of data analysis, the design of the questionnaires as well as the response rate for the questionnaires.

Chapters 5 and *6* analyse the gathered data on the first and second key research questions respectively. The two chapters provide analytical discussions of the findings. In *Chapter 5* evidence on supporting research questions 1 to 4 are analysed using quantitative techniques discussed in *Chapter 3*. The overall findings of these four supporting research questions are summed up in the conclusion and summary section of the chapter where the first key research question is answered.

In *Chapter 6*, the responses to the questionnaire surveys received from companies, investors and employees are analysed to answer supporting research questions 5 and 6. The findings on the two supporting research questions 5 and 6 are summed up in the conclusion section of this chapter where the second key research question is answered.

Chapter 7 is the summary and conclusion chapter where a brief summary of theoretical discussions and empirical findings are presented. The overall findings of the thesis together with the findings for each of the two key research questions are here discussed. This chapter also provides a section on the scope of the study and outlines the limitations that were experienced over the course of conducting this research project. The chapter ends by discussing recommendations for further research.

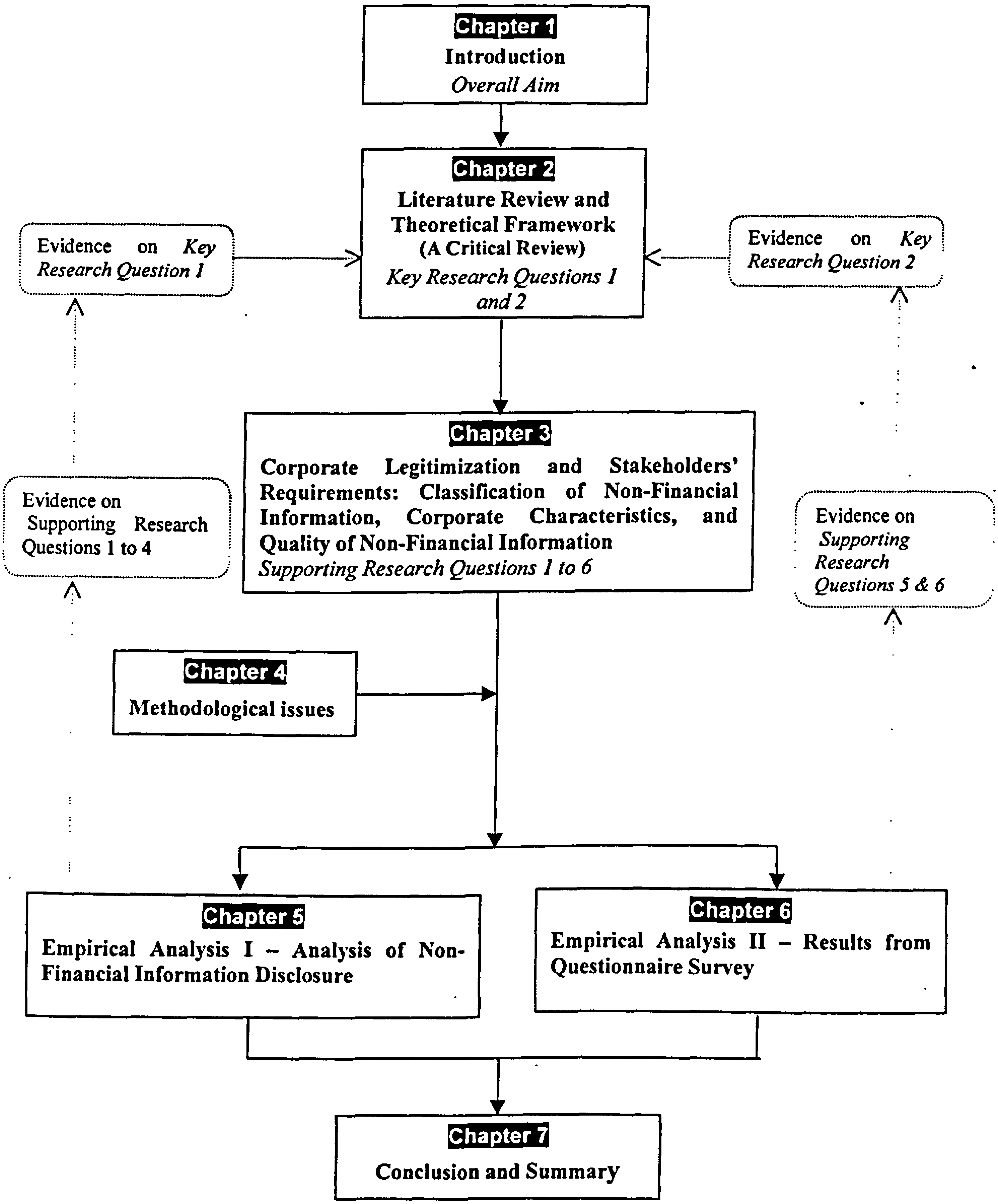


FIGURE 1.2 STRUCTURE OF THE THESIS

CHAPTER 2 CRITICAL REVIEW OF THEORETICAL AND PRACTICAL DISCUSSIONS OF THE DISCLOSURE OF NON-FINANCIAL INFORMATION

2.1 INTRODUCTION

The previous chapter provided background to the disclosure of non-financial information and outlined the overall aim of the study. In order to be able to assess the overall aim, this chapter reviews the relevant literature to explain why major UK companies disclose non-financial information in the absence of any recognition by the accounting profession and the regulatory bodies.

As the literature review is commonly regarded as one of the important first stages in any research project (Bell, 1987, Howard and Sharpe, 1983, Veal, 1992, among many) the key aims of the literature review in this study is to demonstrate an awareness of the current state of knowledge (Gill and Johnson, 1991: p21) in the field of social and environmental reporting. This would enable the reader to gauge what sort of contribution to the existing literature the proposed research is intended to make. An important aspect of any literature survey is the critical review of the literature which "... should provide the reader with a statement of the state of the art and major questions and issues in the field under consideration" (Gill and Johnson, 1991: p21). The literature survey should also project an interpretation of the existing literature and a synthesis of the published research (Merriam, 1988) as well as being "... logically connected with the purpose of the report" (Nachmias and Nachmias, 1996: p558). Thus, it should reflect the impact and the relevance of the literature on the research project (Hussey and Hussey, 1997: p109).

The literature survey conducted in this research project is intended to shed light on those aspects of the literature that are relevant to the overall aim and objectives of this study as well as highlighting the existing gaps in the literature. In order to achieve this the literature survey of this study is carried out in two parts. The first part, which is presented in this chapter, is intended to provide a review of the wider accounting literature so that the theoretical and conceptual issues relating to information disclosure are explored. The second part of the literature survey, which is conducted in *Chapter 3*, is aimed at reviewing the narrower literature, exploring the empirical findings of the previous studies.

In this chapter, the literature review is conducted in chronological order to reflect the evolution of accounting literature and to ascertain the possible links between the development of these theories with the disclosure of non-financial information. The chapter proceeds with a critical review of the early accounting theories and discusses why these theories fail to explain the disclosure of non-financial information and therefore considered as irrelevant to the overall aim of the study.

Considering that the term 'non-financial information' encompasses a wide range of categories, the need for a wider perspective is recognized and is subsequently discussed in the chapter. In this context literature on the most relevant theories, which can be used in assessing the aim of the study, are reviewed in this chapter. This part of the chapter, which is discussed in section 2.3, leads to the two key research questions. This section is followed by a critical review of the relevant literature. In the first part of discussion, a general critique of the relevant literature is presented (in section 2.4.1) while in the subsequent section (i.e. section 2.4.2), the existing gaps between theoretical discussions and empirical evidence is explored and highlighted. Finally, in the conclusion section the whole chapter is summarised and the main findings are discussed.

2.2 A Critical Review of the Development of the Accounting Theories

It is not far from reality if we say modern accounting practice started with the formation of joint stock companies at the end of the 19th century and purported to provide information to the general public and the investors on the overall financial position of a company (*Select Committee*, 1877). From the early days of formation of joint stock companies, the London Stock Exchange insisted on companies sending them a copy of the accounts that had been presented to their shareholders in Annual General Meetings (Bryer, 1993). The disclosure of information in this manner was seen as one way of allowing owners to police the 'stewardship' of their company (see section 2A – Appendix 2 for more details).

2.2.1 Stewardship – The Earliest Concept in Modern Accounting

By definition a 'steward' is "an official appointed to keep order or supervise the arrangements at a meeting or show or demonstration etc" or "a person responsible for supplies of foods etc for a college or club etc"[10]. These definitions provide for a rather simple case where a steward is implicitly expected to act in a responsible manner whilst using the resources entrusted to him without providing a detailed account of the way those resources have been used. However, the separation of ownership and control meant that this could not remain the case for long. The simple definition of stewardship soon took a more sophisticated form and issues such as the purpose for which each

[10] These definitions are extracted from The Oxford Dictionary and Thesaurus (1997).

resource was used and the degree of care and competence exercised in their use were all recognised to be of importance (Gjesdal, 1981; and Rosenfield, 1974).

The employment of managers to run companies, on both a short-term and long-term basis, generated a new class of professionals and a new phenomena which has been termed 'managerial capitalism' (Chandler, 1977). This led to the recognition of "... the possible human weakness in the face of temptation" (Littleton and Zimmerman, 1962: p104). It was, therefore, the job of accountants to perform auditing activities to provide the necessary scrutiny of management and to ensure that management was appropriately performing its stewardship role (Ronen, 1979). Over this period, stewardship was considered to be the main professional role of managers (Lehman, 1995) and companies were expected to report information, which was financial in nature (i.e. mainly the annual profit), with little attention being paid to non-financial information.

2.2.2 Managerial Theories and The Growing Need for Information Disclosure

As companies grew larger, increasing operational complexity enhanced the separation of ownership and control. As a result, managerial theories of firms, which emphasized this separation as well as highlighting the concern of owners (Berle and Means, 1932; and Gordon, 1945) were developed. The separation of ownership and control meant that managers had more autonomy and incentives to depart from their contracts to pursue their own goals, which were not necessarily the same goals as those of the shareholders[11] (Banard, 1938; and Drucker, 1946). Managerial benefits could include salary, security, power, status, prestige, and professional excellence (Williamson, 1963)

[11] In the author's view, this opportunistic behaviour of managers in allocation of resources can be considered as utility maximizing behaviour.

and managers could achieve their non-profit goals by having a positive preference for expenditures on, for instance, staff and emoluments (Williamson, 1970).

Generally, shareholders do not have either the information on day-to-day operations nor the technical and expert knowledge to control managers directly. It is this lack of information which puts managers in a position they could exploit. Formally, this is experienced in the principal agent problems for owners. The principal (i.e. owner) has to find ways to make the agent (i.e. managers) behave in a way which benefits them. This would be achieved by either policing the agent or designing incentive structures (Coase, 1937). The principal could decide to police the agent if the cost of policing is less than the cost of gathering information to monitor the agent.

The introduction of an incentive mechanism led to managers' interests becoming consistent with those of the shareholders. Managers were given rewards, which were linked to the firm's financial performance. These rewards were in different formats ranging from equity and investment plans (Jensen and Meckling, 1976) to share options (Smith and Watts, 1982; 1986). This made it rational for managers to pursue a financial performance maximization goal, which was the same goal as that of the owners. The costs of such incentives, which were commonly known as agency costs[12], could have been expensive and managers could have tried to maximize their rewards. This has always been a predominant problem in the relationship between corporate owners and managers. In addition, there was the problem of moral hazard, which could arise when an agent was contracted to act in a particular way but where their actions were not observable. It was possible for them to renege but only the agent would know.

---

[12] Jensen and Meckling (1976) describe the cost of agency as the sum of monitoring expenditures incurred by the principal, bonding expenditures incurred by the agent, and the value of the lost residual

While managerial theories clearly have values in explaining the growth of information disclosure, it is rather limited and fails to recognise information users other than shareholders. Managerial theories are rooted in the existence of an 'economic contract' between principal and agent according to which, companies report financial information to their investors to illustrate that they have acted in their best interests. In the author's view "traditional managerial theories" fail to recognise the possibility of a 'social contract' between companies and other groups and thereby fail to explain why companies might disclose non-financial information. In this way it maintains an isolated view in its analysis and does not consider factors from the external environment.

2.2.3 Development of A Conventional Approach to Information Disclosure - Decision Usefulness Approach

A more general perspective than agency theory uses the concept of 'decision usefulness' of information to a range of information users as well as shareholders. According to this approach, reporting is demand-driven and information should reach each user group to meet their information needs in a satisfactory manner. Most studies on decision usefulness focused on financial information users (for example, Baker and Haslem, 1973, 1974; Chenhall and Juchau, 1977; and Benjamin and Stanga, 1977)[13]. This information was generally intended to be applied in decision-making processes by a range of users (Ijiri, 1983) including investors, creditors and other groups of individuals (Parker 1986, 1991)[14]. As Laughlin and Puxty (1981) argued, companies, which provided the information, recognised the importance of meeting the information

---

borne by the principal and attributable to the agency problem.

[13] Despite the fact that the main focus of the decision usefulness studies was financial information, some non-financial information was also identified.

[14] For more details on 'decision usefulness approach' see Gray, Owen and Maunders (1991) (shown Appendix 2 - Table 2A for details).

requirements of the user groups and the way information disclosure stimulated their participation for ensuring corporate survival.

Despite the popularity of this approach in its early days, the literature survey implicitly highlights a number of practical difficulties associated with 'decision usefulness'. Firstly, most studies on this approach fail to provide any definition explaining who the information 'user groups' are. Companies are unlikely to simply provide information to any user (or user group) who demands the information. Secondly, there is no clear definition of what is meant by 'usefulness'. Information users could have an entirely different perception of 'usefulness' to that of the companies.

A comprehensive review of studies on decision usefulness was carried out by Owen, Gray, and Maunders (1987). They found that these problems tended to limit the value of the approach.

2.2.4 The Rising Awareness Over the Issue of Corporate Accountability and the Need for Non-Financial Information Disclosure

In the 1970s, with a clear increase in non-financial information disclosure, the limitation of the 'decision usefulness' approach became clearer. As a result academics sought an alternative to the decision usefulness approach and considered the role of corporate accountability.

Conceptually, accountability is a more sophisticated version of stewardship (Gray, Owen and Maunders, 1991: p3), which recognises that companies should have a responsibility to contribute to social welfare as well as a responsibility to serve the owners' interests. Managers should not just be the stewards of their owners but also be the stewards of corporate employees, customers and society as a whole (Chen, 1975). In any democratic system, all companies should be accountable not only to their owners but also to society-at-large (Gray *et al*, 1991) as all individuals have 'rights' to information[15] (Stanton, 1997).

Companies remain unclear about a number of decisions on information disclosure. For instance, the decision on 'what information categories to disclose' is not straightforward nor is the decision on 'who determines the terms of accountability' and 'to whom the accountability is held'. There are differing views on when accountability is due. Tricker (1983) and Stewart (1984) argue that unless the principal can enforce the accountability then there is 'no' accountability[16], whereas Gray, Owen and Adams (1996) take a different view and argue that accountability can exist even if it is not enforceable. As Gary, Owen and Maunders (1991: p6) point out: "most financial disclosure by companies to shareholders ... could be ... enforced by the shareholders" and the disclosure of some information items is *ex gratia* despite the statutory requirement[17]. Therefore, in some cases, companies are forced to provide information but do not, and in other cases they are not forced and yet still do. In other words, accountability is not necessarily reflected by information disclosure. This could be explained by arguing that in a democratic society companies are under moral obligations to fulfil certain tasks that are expected of them. The fact that some relevant interest groups do not have the power

[15] Information should be disclosed on grounds of 'rights' to information by referring not only to the legal requirements but also to the natural and moral rights.

[16] This is known as positive accountability

[17] Under the UK law, companies are required to act within the legal framework for issues such as equal opportunity, health and safety, pollution, and charitable donations. As Gray, Owen and Maunders (1991) state "a duty of accountability is owed to society-at-large by organisations that are responsible for the extent to which they have complied with law" (p7). The legal framework, however, lays down the minimum level of accountability (Tinker *et al*, 1991). In the case of non-disclosure, companies explicitly choose not to disclose information since the society-at-large has not enforced the accountability. At the same time, the UK government and other regulatory bodies have been passive in exercising its authority in enforcing this accountability (i.e. the minimum level of accountability) (also see Gray, Owen, and Adams, 1996).

to enforce their rights should not deter companies from discharging their implied responsibility to these relevant interest groups. This again raises the question of what form the social contract takes and who determines its existence (Gray, Owen and Maunders, 1991).

In the late 1980s to the mid 1990s, a number of studies were undertaken on the nature of the 'social contract' (for example, Gray, Owen and Maunders, 1988, 1991; and Gray 1992)[18]. These studies led to the common belief that information disclosure, followed by enhanced corporate transparency, was an essential theme for any democratic society[19]. In this context Gray, Owen and Adams (1996) underline the important role of accounting information in raising corporate transparency by arguing that:

> "... if we consider active democracy as the appropriate moral basis upon which to organise society, then we can identify a complex of information flows - actual and potential - which do define and can be developed to redefine the society in which we live. A major source of those information flows is 'accounts' prepared and presented by organisations. Currently, such 'accounts' are predominantly financial and predominantly directed towards the most powerful groups in society and are therefore a source of anti-democracy." (Gray, Owen and Adams, 1996: p41)[20]

---

[18] The early implication of social contract was raised a long time ago. In 1975, a report published by the Accounting Standards Steering Committee, known as *The Corporate Report*, a section on 'public accountability' stating that "... to report publicly ... is separate from and broader than the legal obligations to report and raises from the custodial role played in the community by economic entities" (p15, para. 1.3) was engaged. It is explained in the report that public accountability bears no implication more than the responsibility to provide general-purpose information. The report adopts a user-demand approach whereby the amount of information to be reported depends on users' demands and the pressures exerted by the users on a company.

[19] Information reported by companies should address issues of interest to a wide range of interest groups.

[20] This led to proponents of accountability to argue that the disclosed information should fulfil the company's mission by showing that it actually does what it says and maintains its relevance by meeting the needs of their interest groups in an ever-changing environment (Gray S. T., 1995). The disclosed information should also indicate that the company meets the well being of their communities and societies by supporting the public education and assisting in the development of non-profit organisations. These arguments put pressures on companies to disclose a range of non-financial information related to their communities and its members.

In the absence of legal and regulatory requirements for non-financial information disclosure, the way companies predominately concentrate on financial information and disclose non-financial information on voluntary basis, suggests that companies do not discharge their accountability to their society. This means they could disclose information for reasons other than discharging their accountability to their society. There have been other alternative theoretical developments, which provide a more general perspective, and it is to these that we now turn.

2.3 The Need For A Wider Perspective for The Disclosure of Non-financial Information

In the late 1980s to the mid 1990s, a 'system thinking'[21] approach was adopted to explain information disclosure. According to this approach the economic domain in which companies operate is itself located within the 'social, cultural and ethical domain' where "... society, its culture and ethics determine, to a considerable degree, the structure and the acceptable modes of behaviour in the economic domain"[22] (Gray *et al*, 1996: p33) and, hence the behaviour of companies.

The literature survey illustrated that one of the shortcomings of conventional accounting is its failure to recognise the existence and, consequently, the interaction between these domains. When the disclosure of non-financial information is considered in this context, it is necessary to consider that many social, economic and cultural factors that might affect the relationship between a company and each of the main players (e.g. shareholders, employees, consumers, ...) in the economic domain (Gray *et al*, 1996)

[21] See the work by Gray Owen and Maunders, 1987; Guthrie and Parker, 1989, 1990; Hart and Owen, 1991; Owen, 1990, 1992; Owen, Gray and Maunders, 1987; Owen, Gray and Adams, 1992; Roberts R. W. 1992; Roberts J. and Scapens, 1985; Zadek and Evans, 1993; Puxty, 1986, 1991; and many other studies which are available in the literature.

[22] See Appendix 2 – Figure 2A.

needs to be considered in order to understand why companies disclose non-financial information. Thus, social and cultural changes inevitably lead to variations in the level and the categories of non-financial information disclosure. For instance, Roberts C. B. (1991) examined the disclosure of social information for a number of European countries and found evidence to suggest that different social environments did indeed effect the nature of non-financial information disclosed by companies.

One theoretical framework that developed from this approach and aimed to articulate the changes, pressures and factors emanating from the external environment, is the 'political economy' theory (Gray *et al*, 1996). Rather than focusing upon the concerns of shareholders and managers, political economy theory emphasizes the importance of accounting information to power relationship in society. It argues that accounting information can influence the distribution of income, wealth and power in any society (Lukes, 1974).

Information is a powerful tool for listed companies. According to Hines (1988), information can be used significantly in constructing 'reality'. Hines argues that "we create a picture of an organization, or the 'economy', ... and on the basis of that picture, people think and act. And by responding to that picture, and consequences occur, they see it as proof of our having correctly conveyed reality" (p257). She goes on further by adding that "... anyone charged with the responsibility of providing these pictures has a lot of power because people will respond to what they draw-up" and the "... power is a hidden power because people only think of you as *communicating* reality, but in communicating reality, you construct reality" (p257). According to Hines, 'reality' could be anything that the information discloser wants it to be. In other words, information is treated as an invaluable tool that makes companies powerful.

The hidden power of information can be better perceived when the most primitive definition of power is looked at. According to Lukes (1974), power is what is counted as a significant manner and makes A affecting B. Parsons (1967) regards power as being "... generalised capacity to secure the performance of binding obligations by units in a system of collective organization when the obligations are legitimized with their reference to their bearing on collective goals" (p308). Power can be thought of "... as a specific mechanism that brings about changes in the action of other units, individually or collectively, and in the process of social interaction" (Parsons, 1967: p299). Consequently, companies use power for a range of purposes, which tend to change over time as the nature of the relationship between companies and their external environment change.

An understanding of the hidden power linked to information helps us to improve our understanding of why companies disclose non-financial information. At the same time, one needs to consider the social, political and economic context in which companies operate and how changing interests and attitudes within the society are associated with changes in information disclosure (Cooper and Sherer, 1984). In this way, accounting can be seen as a social practice. Lehman (1995), for example, argues that:

> "In order to understand the exact nature, direction, and momentum of social practices such as accounting ... they need to be related to the social circumstances that give rise to them. These circumstances include two fundamental aspects of any society: how it organises to produce the means of existence for its members, and how that social product is distributed. Both aspects are integral to understanding accounting practices as we know them today, and as they could be in future." (p60)

Political economy theory therefore concerns itself with the interrelationship between political and economic forces in accounting practice and how they act to provide the necessary information for decision making that allows for the exercise of power (Miller, 1991). In author's opinion, this is not to say that practical concerns of information requirements are unimportant, they clearly influence the setting up of regulation and accounting practices. Nor it is to understate the important role of the government in this process. What it implies is that the power relation in society plays an important role in determining accounting practice and in explaining how such practice can change over time. It is the interaction of these forces, which determines the particular forces of accounting practice and, consequently, the practice of non-financial information disclosure. This is why at different moments in time accounting has played very different roles both within organisations and society, in general. Miller (1991) provides an example of this by showing how discounted cash flow procedures was developed as a managerial tool in the 1950s and became prominent in the 1960s. This was the result of government attempts to have an influence on economic growth and not a response to practitioner needs or academic arguments.

There are two branches of political economy theory with important differences between them, particularly in the way they deal with non-financial information (Gray, Owen and Adams, 1996). One branch, namely 'classical' political economy, is concerned with structural conflict, inequality and the role of state (Gray, Kouhy and Lavers, 1995a; and Gray *et al*, 1996). According to this approach, the social system propels companies to divulge non-financial information (Puxty, 1986 and 1991) with the state playing a central role. Classical political economy focuses on well-defined groups within society and their interaction within the social system and its power relations that leads to information disclosure. Individual companies and agents are only important as members of particular social groups.

In contrast, the second branch of political economy, namely 'bourgeois' political economy, views the world as pluralist, in the sense that power is believed to be diffused with individual preferences determining social choices with no one individual having the power to influence society. It therefore emphasizes the relationships between companies and individuals or groups of individuals[23], whereby the power associated with individuals or groups of individuals compels companies to divulge non-financial information.

The proponents of classical and bourgeois branches of political economy present views at the two opposing extreme ends of political economy spectrum. According to Gray, Owen and Maunders (1988), a large proportion of the literature on the issue of corporate social responsibility (CSR), which was an important area for the development of theories in the 1980s, adopts what they call a "middle-ground thinking" and falls within the framework of the bourgeois political economy. They classify the literature on CSR into four main categories:

1. the left-wing radical,
2. the acceptance of status quo,
3. the pursuit of subject/intellectual property rights
4. the extreme right-wing (i.e. pristine capitalists or right-wing).

Middle-ground thinking falls into the second and the third categories

According to the middle ground thinking, which is characterised by a pluralistic perspective, the status quo is accepted and the "... overt ambition is neither to destroy capitalism nor to refine, deregulate and/or liberate it" (Gray *et al*, 1988: p8). Gray *et al* (1988) argue that the middle ground thinking results from attempts to " ... deduce a

[23] Although a large body of accounting research is based on pluralist conception of society (see Tinker, 1977), some critiques of pluralist conception (e.g. Low and Tinker, 1977) contend that it ignores a substantial body of evidence related to how the powerfulness of different groups in a company determines the way in which income is distributed to them (Tinker, 1980).

model of society-as-it-should-be from an examination of society-as-it-happens-to-be" (p12).

Critiques of bourgeois political economy[24] consider it to be as a justification for capitalism (Tinker *et al,* 1991). They believe that power is not fairly distributed and social conflicts always arise between advantaged and disadvantaged. These conflicts are systematic and not random as believed by the proponents of the pluralist middle-ground thinking. According to these critiques, the state has an essential role in mediating these conflicts and the relationships within society are not, by themselves, enough to do the mediation. Bourgeois political economy ignores the role of the state and argues that the relationships within society would make the adjustments, once the conflicts arise.

This pluralism and a passive approach to the status quo put middle-ground thinking under siege by its critiques. Tinker *et al* (1991) criticises Gray *et al* (1987) for the way they ignore questions related to status quo. For instance, Gray *et al* (1987: p200) explicitly acknowledge that they do not address questions on "... how and why the parameters of the status quo may have come about and what causes them to be maintained". Tinker *et al* (1991) believe that when the status quo is not questioned a "... conservative tradition that benefits only a few constituencies" (p47) would be promoted. Tinker *et al* (1991) attest the middle-ground thinking by providing cases that illustrate how "... accounting discourse was integral to both reproducing and changing the social relations of the status quo" (p47).

[24] Supporters of classical political economy or, sometimes, called conflict-based framework.

In criticising the middle ground thinking, Tinker *et al* (1991) carry out a periodisation[25] analysis to study the manner in which the middle ground has shifted over time. They contend that "tomorrow's middle ground cannot be ascertained by extrapolating from the past" (p47) and the analysis of social conflicts in each era is essential. Their periodisation analysis shows that "what was the middle ground in one period can become an extreme in another ... and is not independent of contemporary social, political and economic struggles"(p36).

Irrespective of the interesting criticisms made of the bourgeois political economy, this branch of political economy provides a more suitable theoretical framework for the analysis of non-financial information disclosed by UK companies. This is due to the fact that UK companies operate in an environment where the disclosure of non-financial information is not entirely regulated by either the regulatory bodies or the state (i.e. the government). Companies are therefore expected to disclose non-financial information as they are under pressure from some of their interest groups. In such circumstances, the analysis of non-financial information would inevitably require detailed analysis of the relationships between companies and different groups.

In the author's view, bourgeois political economy only identifies the relationship between individuals and groups in a pluralistic world and does not offer a detailed analysis of the relationships between companies and their interest groups. It therefore fails to identify and, subsequently, to define the processes that provoked companies to report non-financial information. The application of sub-theories of bourgeois political economy is essential in providing a detailed examination of these relationships,

---

[25] See Appendix 2, Table 2B for details of periodisation analysis carried out by Tinker, Lehman and Neimark (1991).

whereby the disclosure of non-financial information can be explored further. Two organisation-based branches of bourgeois political economy are legitimacy and stakeholder theories[26].

Legitimacy and stakeholder theories analyse non-financial information from different perspectives. While legitimacy theory seeks to explain the reasons why companies disclose certain types of non-financial information in relation to some of their stakeholder groups, stakeholder theory identifies various stakeholder groups. As is discussed in the following sections, a number of empirical studies have been carried out to find evidence in support of the two theories. Most empirical studies investigating the validity of legitimacy theory examine the disclosure of social and/or environmental information by the companies following the occurrence of environmental disasters or incidents. In contrast, studies on stakeholder theory focus mainly on companies having different stakeholder groups.

2.3.1 Disclosure of Non-Financial Information Used as Means of Corporate Legitimacy

Legitimacy can be defined as a condition or a status and is the end result of a legitimation process (Dowling and Pfeffer, 1975; and Brown and Deegan, 1998). Legitimation is, in turn, " ... the process whereby an organization justifies to a peer or superordinate system its right to exist, that is to continue to import, transform, and export energy, material or information" (Maurer, 1971: p361). Alternatively, Lindblom C. K. (1994), as quoted in Gray, Kouhy, and Lavers (1995: p54), argues that legitimacy exists:

[26] This theoretical classification was applied by Gray, Kouhy and Lavers (1995a) and Gray, Owen and Adams (1996). Also see Appendix 2 – Figure 2B.

> "... when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy."

The above definitions suggest that society can evaluate the usefulness and the legitimacy of an organization by considering how well it performs in terms of social norms and values (Parsons, 1956). For companies to continue to survive and grow, they have to perform well and undertake various socially desirable actions, including distribution of economic, social, or political benefits to the groups from whom they derive their power (for more details see Shocker and Sethi, 1973). As far as companies are concerned, it is important that society recognises the compatibility of their behaviour with its ethical values (Dowling and Pfeffer, 1975). If a company fails to operate within the boundaries set by the social norms, the society may revoke its contract and prevent it continuing its operations (Deegan and Rankin, 1996).

According to proponents of legitimacy theory, companies are considered as operating in a constantly changing external environment and they "seek to ensure that they operate within the bounds and norms of their respective societies. These bounds and norms are not fixed, but across time change, thereby requiring the organisation to be responsive" (Brown and Deegan, 1998: p22). A similar view is adopted by Dowling and Pfeffer (1975) who state that: "... changing social norms and values constitute one motivation for organizational change and one source of pressure for organizational legitimation" (p125). In this context, the disclosure of non-financial information seems to be an obvious way for companies to provide information on their activities to legitimize their behaviours. Clearly, the disclosure of social information becomes a response to environmental factors (Preston and Post, 1975) and is used as a means of legitimising corporate actions as well as projecting their values and ideas (Dierkes and Antal, 1985; and Deegan, Rankin and Voght, 2000).

Despite social and environmental information being disclosed in response to the factors from external environment, the level and the categories of non-financial information tend to vary depending on the impacts of these factors on a company. This is best illustrated by Mathews (1993) who discusses the disclosure of information with respect to the dependence of a company on society and political factors. He argues that: "... organizational legitimacy is not an absolute constant, because organizations differ considerably in their visibility to society as a whole and some are more heavily dependent than others upon social and political support" (pp30-31). In a constantly changing economic and social environments ethical values also continuously change, leading to society imposing expectations and demands on companies. Thus, companies need to continuously change the level and the categories of non-financial information they disclose to indicate that they align their operations and values with those of the society and to successfully legitimise themselves (Gray, Owen and Maunders, 1988; and Brown and Deegan, 1998; and Guthrie and Parker, 1989).

Lindblom C.E. (1984) studies the challenges[27] to corporate social reporting (in the US) between the mid 1960s and the mid 1970s and uses the notion that organisational legitimacy serves to connect the 'social contract' with corporate social responsibility[28],

---

[27] Lindblom C. E. (1984: pp 20-1) summarizes organizational legitimacy as follows:
Legitimacy is not synonymous with economic success or legality.
Legitimacy is determined to exist when the organization goals, output, and methods of operation are in conformance with societal norms and values.
Legitimacy challenges are related to the size of the organization and to the amount of social and political support it receives with the more visible being most likely to be challenged.
Legitimacy challenge may involve legal, political or social sanctions.

[28] Gray *et al* (1987: p4) define corporate social responsibility as : "... the responsibility for actions which do not have purely financial implication and which are demanded of an organisation under some (implicit

whereby the disclosure of social information facilitates the projection of a socially accountable image. This can be interpreted as companies being allowed to operate in society on the basis of some form of implicit 'social contract' (between the company and parties with legitimate interests[29] in that company), whereby companies agree to perform various socially desired actions in return for the approval of their objectives and to ensure their survival (Guthrie and Parker, 1989). In order to achieve the approval of society and to have their survival guaranteed, companies are required to release non-financial information that is sufficient in terms of both quality and quantity (Woodward, Edwards and Birkin, 1996).

Whenever companies disclose social information to legitimise their own existence (Brown and Deegan, 1998), they can adopt one of the four possible strategies, as identified by Lindblom C. K. (1994 as quoted in Gray, Kouhy, and Lavers (1995: p54), in order to proceed with the process of legitimation through disclosure. Companies may disclose non-financial information to seek to:

1. educate and inform its relevant public about actual changes in the organisation's performance and activities,
2. change the perceptions of the relevant public without having to change its actual behaviour,
3. manipulate the perception deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols, and/or
4. change external expectations of its performance.

Apart from the first strategy, where non-financial information disclosure acknowledges the public about the changes taking place within a company, the other three strategies draw attention to the manner in which companies use non-financial information for their

---

or explicit) identifiable contract".

[29] Stanton (1997: p694) argues that a "... legitimate interest is a result of the social contract: there is a mutually dependent relationship between a company and the society in which it operates".

own purposes rather than representing the truth about their organisations' performance and activities. Companies can also report information in response to the occurrence of particular incident(s) such as an environmental disaster that puts the companies in the spotlight. The findings of the main empirical studies, as reviewed by the author, are shown in the Table 2.1.

Apart from the study carried out by Guthrie and Parker (1989), a review of the previous empirical literature unanimously supports legitimacy theory. While most empirical literature provides evidence to suggest that the occurrence of certain events is followed by the changes in the level of social or environmental information, most theoretical literature focuses on explaining that companies disclose social or environmental information to legitimise their behaviours to society-at-large and to ensure conformity with what is perceived to be socially acceptable.

TABLE 2.1 EMPIRICAL STUDIES TESTING LEGITIMACY THEORY

Empirical Studies	Findings
Honger (1982)	Investigation was carried out on corporate social reporting of US steel corporation over a period of 80 years, between 1901 and 1980. • Found evidence suggesting that social reporting was, indeed, in response to society's expectations of corporate behaviour.
Guthrie and Parker (1989)	A longitudinal review of the disclosed social information in BHP's annual reports was conducted over a period of one hundred years commencing 1885. A comparison between the timing of observed peaks of corporate social disclosure and the major events in history of BHP was carried out. • Found no evidence of disclosure to be in response to economic, social or political conditions or events.
Patten (1992)	The effect of the Exxon Valdez Oil Spill on the annual report environmental disclosures of US petroleum companies was studied both before and after the Exxon Valdez incident in Alaska in 1989. • Found significant increases in environmental disclosures by Petroleum firms after the Exxon Valdez oil spill.
Deegan and Gordon (1996)	Environmental reporting in annual reports of the Australian companies was reviewed between 1980 and 1991. They assessed the association between environmental disclosures and concerns held by environmental groups about particular industry. Found: • Positive association between the level of membership of environmental groups and the disclosure of environmental information. • Companies in certain industries disclosed more environmental information.
Deegan and Rankin (1996)	Environmental reporting in the corporate annual reports of a sample of Australian firms that were successfully prosecuted for breaches of various environmental protection laws during the period 1990 and 1993 was examined. The sample included 20 companies, which were prosecuted for a total of 78 times. • Found significant increase in the disclosure of environmental information when firms facing environmental prosecution.
Wilmshurst and Frost (2000)[30]	The possibility of association between factors perceived as important by Chief Finance Officers in the decision to disclose environmental information within the annual report of selected Australian companies was examined. • Found supporting evidence that management responds to the perceived importance of stakeholders and "... may legitimise its environmental performance in response to general changes in the perceived importance of environmental issues, and hence meet the information needs of the general community and stakeholders financially reliant on the firm" (p23).
Deegan, Rankin and Voght (2000)	The reactions of Australian firms in terms of annual report disclosure to five major incidents were examined. Found that: • Companies change their disclosure policies around the time of major company and industry events. • Disclosures appear to be event related rather than related to the social issues. • Disclosure of social information in annual reports as an image making strategy.

[30] Wilmshurst and Frost (2000) failed to provide evidence on any link between perceived importance of specific environment related stakeholders or legal issues.

The above literature survey reveals that one of the practical problems with legitimacy theory is the way it emphasizes 'society-at-large'. The term 'society-at-large' is too broad and fails to identify different groups that form society-at-large and, therefore, does not provide a detailed analysis of the relationship between companies and each group[31]. Inevitably, the theory fails to acknowledge how powerful some of these groups might be in provoking companies to disclose non-financial information. To provide a more detailed analysis of the disclosure of non-financial information, a theory that identifies different groups in society and recognises that the existence of different stakeholder groups is required.

2.3.2 Non-Financial Information Disclosure and Legitimisation of Corporate Behaviours to Stakeholder Groups

Companies could disclose information in order to legitimise their behaviours to their different interest groups, who are commonly known as stakeholders. In order to have a better understanding of who the stakeholders are and of their relationships with companies, this section initially reviews stakeholder theory followed by discussion on how and why companies can use information disclosure to legitimise their behaviours.

Stakeholder theory identifies 'stakeholders' as individuals, or groups of individuals, who have legitimate interest in a company (Freeman, 1984; and Pearce, 1986), and whose interests are recognised as vital to the company's long-term survival (Jones, 1995). Some stakeholder groups are of more importance to their companies than others are, depending on the importance attached to the resources they control (March and

---

[31] A large volume of the latter literature focuses on a social contract between companies and society-at-large. For instance, Shocker and Sethi (1973: p67) argue that "any social institution – and business is no exception – operates in society via a social contract, expressed or implied". Shocker and Sethi (1973: p97) asserted that any organization owes its existence to the continuing mandate of society-at-large. Gray, Owen and Maunders (1991) find such a view to be"... too broad and imprecise and takes too little

Simon, 1958; and Ullmann, 1985). The Stanford Research Institute (SRI), as quoted in Freeman (1984: p31), defines stakeholders as "... those groups without whose support the organisation would cease to exist".

The interests of stakeholder groups could be very wide. While some interests stem from within a company, others originate from the external environment of the company (Cyert and March, 1963). For instance, investors who are the legal owners have financial interests, whereas citizens who are external to a company have the right to a pollution free environment. Employees, on the other hand, have both financial (e.g. their wages and other pecuniary benefits) and non-financial interests, such as the right to a pleasant working environment, equal opportunity and training programmes.

As discussed in the earlier sections, companies operate in the bounds and norms of their environment characterised with new demands imposed on them by stakeholder groups. In such circumstances the only way of maintaining a competitive position is to remain responsive to the demands and the expectations of their stakeholders (Jones, 1995). Considering stakeholding in a wider context Hirst (1997) argues that stakeholding represents a social form and the use of financial measures as the only indicators of corporate success and corporate financial stability is clearly inadequate in such a system (see Chakravarthy, 1986). It is therefore necessary to consider stakeholders other than investors when developing firm strategy (Cornell and Shapiro, 1987; and Barton, Hill and Sundaram, 1989).

The adoption of a stakeholder mentality by companies does not necessarily mean that companies have to change their beliefs to conform to those of their stakeholder groups.

---

cognizance of the power wielded by the organization" (p15).

Sturdivant (1979)[32], who is one of the proponents of this argument, contends that managers should consider the conflicting interests of their stakeholder groups when planning corporate strategy. This means that companies can maintain their own beliefs and prime objectives (i.e. maximisation of shareholders' funds and profit) as long as they keep their stakeholder groups content. In this context, companies may disclose non-financial information not simply to meet the information needs of their stakeholders but to keep their stakeholders satisfied and to justify their behaviours to them. This is best explained in the three dimensional model of Ullmann (1985). Ullmann (1985) discusses the responsiveness of a company to the intensity of 'stakeholder demands' in the first dimension of his model. According to this dimension, stakeholder power is a function of the stakeholders' control over the resources required by the corporation. As Ullmann (1985) argues, the greater the dependence of a company on a specific source is for its continuous survival, the more powerful the stakeholder group become, and therefore the more important it is for the company to disclose information which is relevant and of interest to that particular stakeholder group.

The second dimension of Ullmann's model deals with 'strategic posture' which is the mode of response of a company to social demands, whereby companies with more active strategic postures are expected to disclose more non-financial information to influence their key stakeholders[33]. The third dimension of this model illustrates that companies with better economic performance disclose higher levels of non-financial

[32] Sturdivant (1979) tested the proposition that the interests of different stakeholders conflict. He used a survey of the activist group leaders and corporate managers. The results showed significant differences between the two groups indicating that the activists were stronger in their beliefs that business should be responsive to social issues.
[33] A company whose management continuously tries to influence their organisational status with key stakeholders through social responsibility activities possesses an active posture.

information [34]. This could be due to the fact that companies with better economic performance either treat the disclosure of non-financial information as a means of legitimising their behaviours or have more resources to afford a greater level of transparency to their stakeholders.

The literature, on both legitimacy and stakeholder theories, leads to the general perception that there is a difference between 'satisfying' and 'meeting' the information requirements of stakeholders information requirements. Considering the four strategies discussed by Lindblom C. K. (1994) (see section 2.3.1), companies can be regarded to disclose non-financial information to legitimise their behaviours to their stakeholders, thereby 'satisfying' their stakeholders. However, this does not necessarily imply that companies pay attention to the quality of non-financial information so that it 'meets' the information needs of their stakeholders.

Companies may use non-financial information to 'satisfy' the information requirements of their stakeholders by adopting the second, the third or the fourth strategies, introduced by Lindblom C. K. (1994)[35] without paying much attention to its quality. If companies concentrate on presenting better quality of information in order to meet the information requirements of their stakeholders, they need firstly to identify who their stakeholders are and secondly to hold dialogue with them to seek their information requirements.

In the absence of any regulatory requirements set by the accounting profession for the disclosure of non-financial information, the voluntary disclosure of non-financial

---

[34] Roberts R. W. (1992) also found a positive link between the two variables.
[35] Companies can either change or manipulate the perception of the relevant public or change their expectations of corporate performance through non-financial information disclosure.

information can be misused to legitimise corporate behaviours (Owen and Lehman, 2000). As shown in Table 2.1, most studies, investigating the voluntary information disclosure and corporate legitimacy, focus on the disclosure of information items in response to the occurrence of incidents. The literature survey revealed little empirical investigation, exploring the possibility of any associations between the disclosure of non-financial information and corporate characteristics.

As will be discussed in *Chapter 3*, a large volume of the literature on information disclosure emphasises corporate characteristics such as size, industrial background and corporate performance and discusses how the quantity of information disclosure varies with each corporate characteristic. The literature survey on legitimacy and stakeholder theories illustrated that little attention has been paid to whether companies with different characteristics disclose information to legitimise their behaviours to their stakeholders. Due to the paucity of empirical evidence in the existing literature, this study focuses on investigating whether companies disclose non-financial information to legitimise their behaviours. Thus, the first key research question that is investigated in this study is:

> *"Do companies disclose non-financial information to legitimise their corporate behaviours to their stakeholder groups?"*

As will be discussed in *Chapter 4*, the *first key research question* is investigated by examining the possibility of any links between corporate characteristics and non-financial information disclosure. If evidence is observed to suggest any association between corporate characteristics and the level of non-financial information disclosure, it can be concluded that companies use non-financial information disclosure to legitimise their behaviours to their stakeholders. However, if no conclusive evidence is obtained on the association between corporate characteristics and non-financial information disclosure, further supporting evidence is required before being able to argue that companies disclose information with the intention of 'meeting' the information requirements of their stakeholders.. The need for further supporting evidence stems from the possibility that companies may focus on the 'quality' of non-financial information so that the disclosed information would convey the true reasons to the relevant public, explaining the deviations of corporate behaviours from social norms (i.e. Lindblom's first strategy – see section 2.3.1).

If companies disclose non-financial information to 'meet' the information requirements of their stakeholders, they are expected to identify and to hold dialogue with them. The literature on stakeholder theory pays little attention to whether companies communicate with, or find out the information requirements of their stakeholders, or how companies reach decisions on the information categories they need to disclose in their annual reports. In the next section, that part of the literature that deals with these issues is reviewed and discussed.

2.3.3 Quality of Non-financial Information and The Expected Move Towards Corporate Transparency

The level of interaction between companies and their stakeholders and 'quality' of information are closely related when discussing the disclosure of non-financial information in the context of 'meeting' the information requirements of stakeholders. As will be discussed later on in this section some academics (e.g. Elkington, 1999) foresee a global move towards corporate transparency. In the author's view, if UK companies are moving towards more transparency, supporting evidence is required to illustrate that UK companies pay attention to the 'quality' of non-financial information disclosed.

The mid 1990s can be regarded as the period during which companies used non-financial information reporting as a public relations tool (L'Etang, 1994; and Elkington, 1999) to project an image of legitimacy (Deegan, Rankin and Voght, 2000). L'Etang (1994) provides supporting evidence suggesting that corporate social responsibility was used as an image making tool which was "an investment against the day when a crisis occurs and the company needs all the goodwill it can muster" (p116). According to L'Etang (1994), "corporate social responsibility itself is potentially an example of symmetrical public relations but when communicated to a third party it becomes publicity or public information ... In a case where a company acknowledges and communicates its self-interest the public relation is being truthful" (p116). Unlike the mid 1990s, the end of the decade coincided with a surge of significant changes in the way academics viewed the quality of non-financial (mainly social and environmental) information disclosure and its impact on the enhanced corporate transparency. The most recent literature mainly focused on the social accounting and audit. The works of Zadek, Pruzan and Evans (1997) and Gonella, Pilling and Zadek (1998)[36] are regarded as the best examples.

According to Gonella, *et al* (1998: p21), "a social accounting process must meet the specific needs of an organisation and stakeholders involved, and so no two processes will be exactly the same". Gonella *et al* (1998) identifies five common aspects for all 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR) approaches which are: 'stakeholder identification', 'stakeholder dialogue', 'indicators and benchmark',

[36] Zadek, Pruzan and Evans (1997) and Gonella, Pilling and Zadek (1998) discuss those key principles that ensure the quality of 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR). The key principles are: completeness, comparability, inclusivity, regularity and evolution, embeddedness, disclosure and external verification and continuos improvement (See Appendix 2 – Table 2C).

'continuous improvement', and 'public disclosure'. In this view, a *'transition'* from the disclosure of non-financial information for image making purposes to the disclosure of non-financial information that is aimed at *'meeting'* the information requirements of stakeholder groups requires the adoption of some of the above aspects.

Elkington (1999) identifies ten characteristics of this transition (see Appendix 2, Table 2D). Communication[37], which appears to have a significant role in this transition (as identified by Elkington, 1999), is expected to change from one-way passive communication to multi-way active dialogue. Hence, non-financial information disclosure will no longer be used for the 'public relation' purposes, but is expected to deliver a more effective means of communication with stakeholders. In other words, the increasingly powerful stakeholders put more pressures on companies to provide more information (for more details see Tilt, 1994: p50).

Two essential aspects of this transition are 'identification of stakeholder groups' by companies and 'stakeholder dialogue' whereby companies find out the information requirements of stakeholders. The interaction with stakeholders can be explained in the context of polyvocal citizenship, which is defined as being "... built around stakeholder dialogue and its essence lies in providing each of the stakeholders with a 'voice' in the organisation" (Gray, Day, Owen, Evans and Zadek, 1997: p35). It is used to explore the interaction between companies and their stakeholders. In the author's view, the interaction process offers stakeholders with the opportunity to take part in defining the terms of accountability by expressing what they expect of their companies.

---

[37] Which has been revolutionised with the introduction of internet and advanced computer technology.

There are practical difficulties associated with polyvocal citizenship. For instance, even if companies have procedures for stakeholder identification and for stakeholder dialogue, there is always a possibility for companies to disclose non-financial information in the attempt to legitimise their behaviours. According to Gray *et al* (1997):

> "There is a potential difficulty in that stakeholders may not be informed in a manner which permits the expression of their voice to challenge their essential problems of organisational legitimacy. ... the voices may be heard only internally and offer comment only in the terms already set for them by the organisational hegemony" (p338).

Even if independent external auditors are involved, there is always a danger of them failing to express their views freely. The failure of auditors to serve in the interest of stakeholders is highlighted in a recent study by Ball, Owen and Gray (2000) which is discussed in section 2.4.1.

To gain a better understanding of why 'stakeholder identification' and 'stakeholder dialogue' are both significant in the move towards more transparency, a broader picture of the changes that are believed to be taking place needs to be considered.

Elkington (1999) depicts a broader picture of transitional changes by discussing the future business environment in the context of 'sustainability'[38]. Proponents of sustainability consider it as comprising of eco-justice and eco-efficiency[39] (Gladwin, 1993) and regard it as raising concern over the treatment of environment, the wealth distribution, and the well being of future generations[40]. For Gladwin (1997) sustainable development is concerned with equality, alleviation of poverty, and redistribution of

---

[38] Or sometimes called sustainable development.
[39] Eco-justice and eco-efficiency concern with issues related society and environment, respectively.
[40] According to Gray *et al* (1996: p61), the "... current modes of behaviour –especially in the developed world – are un-sustainable and therefore threaten current and future way of life".

opportunity. However, the context of sustainability has evolved over the years and is taking new formats. Elkington (1999) argues that sustainability[41] is no longer "... an attempt to harmonise the traditional financial bottom line with emerging thinking about the environmental bottom line"(p2). He recognises a shift from the traditional financial bottom line to "triple bottom line" approach, which concentrates on three main elements of economic prosperity, environmental quality and social justice. This new shift is expected to provoke in-depth changes in the global business environment and the way companies conduct their operations.

It is as a result of the "triple bottom line" approach that future markets are expected to be characterised with more competition at global level. More companies are likely to be challenged by their stakeholders (e.g. customers and suppliers) about different aspects of the "triple bottom line" (Elkington, 1999). Contemporary to the changing global markets, there are shifts in the 'values' from hard commercial values to softer "triple bottom line" values[42]. For proponents of "triple bottom line", more information on social, environmental and ethical issues is expected to be one of the significant features of the future business behaviours.

Apart from the common belief that there is a shift towards corporate transparency, some academics believe that by the end of 1990s there were clear signs of convergence towards a broad set of standards (Gonella *et al*, 1998; and Zadek *et al*, 1997) in the

---

[41] While sustainability agenda was commonly perceived to have three dimensions, focusing on economic prosperity, environmental quality and social justice, Elkington (1999) argues that these three dimensions are not comprehensive to explore the sustainability agenda in today's complex world. Elkington (1999) argues that sustainability has become a more complex challenge. According to Elkington (1999), sustainability agenda can be explored using seven dimensions. The seven dimensions are: markets, values, transparency, life-cycle technology, partnerships, time, and corporate governance.

[42] Unlike 'hard' values that merely concentrate on traditional financial bottom line, 'softer' values tend to pay a lot of attention to social and ethical values. In a sustainable society, social, ethical and political goals are expected to be set to address "triple bottom line" issues. However, there are certain values that

practice of SEAAR[43], leading to a common framework for the SEAAR practice[44]. An early indication of the move towards standardisation is the emphasis on the quality of SEAAR and its development in the late 1990s. The evidence found by Adams, Hill and Roberts[45] (1995) suggests that SEAAR "... is an area that is overdue for legislation ... However, there is clearly a great deal of scope for improvement in the quantity and quality of disclosures" and "... any legislation or standards need to be very carefully drawn-up" (pp56-57). Tilt (1994) also found evidence to suggest that standards are required to ensure that companies are disclosing information about their activities that affect society and that external audits are the most appropriate way of enforcing such regulations. The absence of any legislation is expected to result in the rising level of discursive information (Adams, Coutts and Harte, 1995), without much attention being paid to the quality of information.

The literature clearly foresees a move towards transparency, which inevitably entails an increasing improvement in the quality of information disclosure. The current literature on the move towards more transparency implies that companies need to pay more attention to the 'quality' of non-financial information they disclose to their stakeholders.

---

are shared globally and some tend to be society-specific.

[43] Zadek *et al* (1997) sets examples of this convergence by referring to some specific cases. For instance, two companies of Van City and Co-op are now examining how greater stakeholder participation in the accountancy process might be best achieved. A similar convergence is taking place in the need for the external agents to monitor the process of reporting. An example of this becomes evident when looking at Ben & Jerry's Homemade Inc. According to Parker A. (1997), the company has historically asked external agents to evaluate their performance and to pass personal judgement on the company's social performance. Nowadays, they have moved towards a view of the external agent as auditor charged with the duty of ensuring that the published statement is a correct description of what happened over the period.

[44] Gonella *et al* (1998) suggest a common framework for the SEAAR practice and identifies three key areas that would form the basis of 'best practice': 1) A well-defined set of activities for the practice, 2) Both the activities and the quality of those activities should become subject to assessment, 3) There is a need to ensure that the necessary skills and experience required to support the process become more precisely specified and testable.

[45] The three researchers carried out a survey examining the disclosure of social information, defined in terms of environmental, ethical and employee-related information in the annual reports of 150 of the

The literature survey conducted in this chapter revealed little evidence on UK companies and whether there are any signs of the transition taking place among them. Hence, the *second key research question* that needs to be investigated is:

> *"Do companies disclose non-financial information to meet the information requirements of their stakeholder groups?"*

2.4 CRITIQUE OF THE LITERATURE RELEVANT TO NON-FINANCIAL INFORMATION DISCLOSURE

This section critically examines that part of the literature that is relevant in explaining the disclosure of non-financial information in the UK. Section 2.4.1 provides critiques of the literature, including the author's critique. This is followed by section 2.4.2, where the existing gaps between theoretical and empirical literature are discussed and highlighted.

2.4.1 General Critique of the Relevant Literature

The literature review revealed that the most relevant and appropriate theories that explain the disclosure of non-financial information by UK companies, in the absence of regulatory requirements or any recognition by the professional bodies, are legitimacy and stakeholder theories. This section discusses the shortcomings of that part of the literature that is used in this study to discuss the disclosure of non-financial information.

The literature review (in section 2.3.1) revealed that the empirical studies, which examine the disclosure of social and environmental information in the context of legitimacy theory, focus on the way companies divulge information in response to major social and environmental incidents. The literature tends to ignore other potential factors that can put companies under pressure to disclose non-financial information.

---

largest European companies.

According to Lindblom's C. K (1994), companies whose values do not conform to those of society are likely to divulge information in an attempt either to justify or to divert public attention, or to change and/or manipulate external expectations. In the author's view, the deviation from social norms and values could be due to reasons, which stem from corporate characteristics (e.g. corporate industrial affiliation, size, growth rate and corporate performance). In a recent study by Gray, Javad, Power and Sinclair (1999)[46], these reasons are regarded as exclusive factors, whose inclusion would significantly improve the relationship between corporate characteristics and environmental and social information disclosure[47].

Regardless of the common perception that companies disclose non-financial information to legitimize their behaviours, the move towards transparency (as claimed by some commentators such as Elkington, 1999) implies that companies divulge non-financial information to provide their public and their stakeholder groups, in general, with information they require. In the author's view, as companies operate in a constantly changing external environment, they need to exhibit certain degree of flexibility to maintain responsiveness to the changing stakeholders' values and expectations. Stakeholder dialogue provides companies with the opportunity to find out about their stakeholders' expectations and values as well as meeting their information needs. Hence, the importance of stakeholder dialogue to ensure quality of non-financial information is demonstrated.

---

[46] Gray *et al* (1999) focused on three corporate characteristics: industrial classification, corporate size and profitability.
[47] Gray *et al* (1999) consider factors such as organizational culture, experience with pressure groups and media profile be exclusive.

The recent accounting literature has dealt with the 'quality' of social and environmental information by identifying the characteristics of SEAAR (See Appendix 2, Table 2B). Although considerable progress has been made, further development is required to achieve a framework that is applicable to *all* companies. The number of studies dealing with the quality of non-financial information is relatively small and most of them concentrate on the identification of the common characteristics for SEAAR approaches. The existing literature deals with issues such as information characteristics (e.g. unbiasedness and reliability of information) and the need for external verification (i.e. external audit) (Gonella *et al*, 1998; and Zadek *et al*, 1997) as well as highlighting the need for regulations (Adams and Harte, 1999, and Gray, 2000).

In a recent study by Ball, Owen and Gray (2000), attention is drawn to the failure of verifiers of environmental reports to highlight the weaknesses and failures of corporate performance. According to Ball *et al* (2000: p1), "... current verification practice exhibits a 'managerial turn' rather than representing corporate commitment to external transparency and accountability". One of the alarming issues raised is that: "... the organizational legitimacy is sustained by the very fact that being seen to be audited rather than there being any real substance to the audit process itself" (Ball *et al*, 2000: p2). The work of Ball *et al* (2000) shows the failure of external verifiers to ensure the quality of environmental reports in a manner that it is expected to protect the interests of stakeholders.

In the author's view, a framework which ensures the disclosure of non-financial information would discharge corporate accountability to stakeholders, needs to have stakeholder dialogue at its core. As companies have a number of different stakeholder groups specialist knowledge from other academic disciplines is required (a) to explore effective methods of interaction between companies and their different stakeholder groups, and (b) to ensure the quality of disclosed information. As will be shown in *Chapter 3*, interaction with stakeholders involves different methods of one-way and two-way communication.

One of the inherent difficulties in addressing issues related to quality is the way the relationships between companies and some of their stakeholder groups are defined by 'social' contracts. As it was explained in section 2.2.3, the terms of a social contract are implicit and therefore not well-defined. This implies that even if there were interaction between companies and their stakeholder groups, there still remain some unresolved issues on, for example, the categories of and the extent to which non-financial information should be disclosed. These are all issues that need to be addressed and developed in a much broader context in the literature.

Another aspect, which appears to be missing from the current UK literature, is the recognition of how significant the role of governance structures can be in communication between companies and their stakeholder groups. A number of US studies (e.g. Harrison and Freeman, 1999; and Luoma and Goodstein, 1999) have emphasized the significance of corporate governance structures. According to these studies, communication between companies and their stakeholders can be carried out more effectively by allowing stakeholder representatives in corporate managerial structures.

One of the limited number of UK studies that draws attention to the importance attached to corporate governance is the recent study by Owen, Swift and Humphery (2000). Owen *et al* (2000) state that "...we must ... question how meaningful the role of an independent auditor can be in the absence of reforms to corporate governance procedures which gives stakeholders a legitimate role in corporate decision-making" (p95). They argue that unless there is a fundamental change in the corporate governance procedures, social audit can easily serve managerial purposes rather than fulfilling its original role, which is to discharge the responsibility of corporate accountability to stakeholders.

Owen *et al*'s proposal is in line with the triple bottom line of Elkington (1999). According to Elkington (1999), corporate governance needs to take on board the view of their key stakeholders by developing a much more inclusive way of handling stakeholder dialogue which is multi-way rather than focusing on one-way communication.

2.4.2 The Existing Gap Between The Theoretical Discussion and Empirical Investigations with Regard to Non-Financial Information

The concept of corporate legitimacy and the move towards corporate transparency are potentially contradictory. The fact that the findings of previous studies (Gray, 1997; and Adams, Hill and Roberts, 1995) suggest a rise in the quantity rather than the quality of social and environmental disclosure indicates the increasing use of non-financial information by companies for legitimacy purposes. This, in turn, undermines the underlying issues (i.e. stakeholder dialogue and information characteristics) related to the quality of non-financial information. Even though, those information categories that companies divulge voluntarily may be unbiased and reflect a true image, it does not necessarily mean that companies are willing to report on all aspects of their operations. For instance, in a recent study by Adams and Harte (1999) evidence is presented on the willingness of companies to report on their employment practices.

If companies are moving towards transparency, evidence is required to suggest that companies do not disclose non-financial information to legitimise their operations but that they do so to meet the information requirements of their stakeholders. The existing literature concentrates on social and environmental incidents to argue that companies disclose the relevant information to justify their behaviours (section 2.3.1) and offers little evidence to suggest that companies disclose such information even when no social or environmental incident has occurred. In other words, legitimacy theory can be looked at from a much broader perspective. It is, for instance, important to note that in the absence of statutory or legal requirements companies have the freedom to report non-financial information when they wish to project certain images of themselves or to deviate attention from issues of concern. In this study (in *Chapter 3*), it is argued that companies with certain characteristics may have different levels of non-financial information disclosure. As the literature survey revealed, there are not many studies that have looked at non-financial information disclosure from this perspective. Following the above argument, if evidence is found to suggest that companies use non-financial information disclosure to legitimise their behaviours to a range of stakeholder groups, further supporting evidence is required to suggest that companies did not attempt to meet the information requirements of their stakeholders and are not observed to hold much dialogue with their stakeholder groups.

To assess whether companies take steps to ensure quality of non-financial information, this study focuses on two of the five aspects[48] of SEAAR. The two aspects are: 'stakeholder identification' and 'stakeholder dialogue'. The reasons why only two

[48] The five common aspects of SEAAR are: Stakeholder identification, Stakeholder dialogue, Public disclosure, Indicators benchmarks, and continuous improvements.

aspects are selected are discussed in *Chapter 3* (section 3.4). Evidence on these two aspects is required to show: (a) if companies identify their stakeholder groups and, (b) if they hold any dialogue with their stakeholder groups. The number of studies which have addressed these two issues is limited[49]. The findings would also cast light on whether UK companies have moved towards more corporate transparency (as discussed by Elkington, 1999).

In the author's view, this study is expected to find evidence that would cast light on whether the major UK companies disclose information to deviate attention from issues of main concern in the absence of any statutory or regulatory requirements. This finding is very likely to be supported by the evidence gathered on *the second key research question*. The evidence on the second key research question is expected to suggest that there is very little dialogue between companies and their stakeholders. It is only in the presence of such evidence that one can argue that UK companies do not pay much attention to the quality of non-financial information. Currently, there is not enough evidence in the existing literature to enable one to comprehensively conclude that the major UK companies use non-financial information to legitimise their behaviours to their stakeholders in the absence of any statutory or regulatory requirements.

The author also wishes to stat that even though this study uses legitimacy theory as its main theoretical theme, stakeholder theory will also be used jointly and inter-changeably along with legitimacy theory in order to explain the evidence that will be observed on the two key research questions. The reason for this is rooted in the way the two theories supplement each other's shortcomings when they are used in analysing the

[49] Gray, Day, Owen, Evans and Zadek (1997) discuss stakeholder dialogue in the context of polyvocal

disclosure of non-financial information. For instance, legitimacy theory recognises neither the existence of different stakeholder groups nor the importance companies attach to them. Conversely, stakeholder theory fails to argue that companies may disclose non-financial information to legitimise their corporate behaviours. The author believes that the use of the two theories provides a stronger theoretical theme for the study. While legitimacy theory will be used to discuss whether companies disclose non-financial information to legitimise their corporate behaviours, stakeholder theory will be used to discuss information disclosure to stakeholder groups. The two theories will be used jointly and inter-changeably, although with more weight being attached to legitimacy theory.

2.5 CONCLUSION

This chapter presented a review of the accounting literature relating to different theories that have been commonly used in explaining the disclosure of information over the years. A critical review of the early literature revealed that despite its valuable contribution in broadening our understanding of information disclosure, a wider perspective is required in order to consider various elements from the external environment in which companies operate. Bourgeois political economy was found to provide such a perspective.

The literature review conducted in the chapter illustrated that bourgeois political economy, which adopts a pluralist view of the world and emphasises the relationships between companies and individuals/groups, considers power to be diffused and considers conflicts to arise randomly. As proponents of bourgeois political economy

---

citizenship perspective.

argued, the forces of social interaction resolve these random conflicts. As bourgeois political economy did not provide detailed analysis of the forces of social interaction and how these forces may lead to the disclosure of non-financial information by companies, it was decided to choose more relevant theories. Two organization-based theories, namely legitimacy and stakeholder theories, were reviewed and found to be the most relevant theories for analysing the relationship between companies and different players within the external environments.

It was revealed that whilst legitimacy theory explains the divulgence of non-financial information by companies to justify their behaviours to society-at-large, stakeholder theory identifies different corporate stakeholder groups whose need for certain type of information should be taken into account. The two theories were found to supplement each other. It was decided to apply the two theories jointly and inter-changeably. Based on the review of empirical studies on the two theories, the first key research question was presented as: *'whether the disclosure of non-financial information was being used to legitimise corporate behaviours to stakeholder groups?'*

It was further argued that even if evidence suggests that companies do not disclose non-financial information to legitimise their behaviours to their stakeholder groups, it does not necessarily mean that they disclose information to 'meet' the information requirements of their stakeholder groups. It was then argued that if companies intend to meet the information requirements of their stakeholder groups through non-financial information disclosure further supporting evidence is required to suggest that companies identified their stakeholder groups and held dialogue with their stakeholder groups to ascertain their information requirements. In other words, evidence was required to show that companies paid some attention to the 'quality' of non-financial information.

To explore whether quality of non-financial information mattered to companies, the chapter was continued by reviewing the recent literature on quality of non-financial information and the move towards corporate transparency. The literature review highlighted the importance of stakeholder identification and stakeholder dialogue. In doing so, it was also important to consider the changes in the global business environment including the move towards more transparency and more effective communication, which were both regarded as significant features of future business behaviours. Concurrently, the literature suggested that there was a growing concern for an obligatory framework to ensure quality. Some studies even suggested signs of convergence towards a broad set of standards for 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR).

As the above literature offered little evidence to suggest that companies disclose non-financial information with the intention of meeting the information requirements of their stakeholders, the second key research question was presented as: *'Do companies disclose non-financial information to meet the information requirements of their stakeholder groups?'*

The chapter was then continued by presenting the critique of the literature, including the author's view, relevant to non-financial information disclosure. Finally, the gaps between the existing theoretical and empirical literature were discussed, providing further justification as why it was important to explore the two research questions 1 and 2.

These key research questions will be explored further in *Chapters 3* where supporting research questions 1 to 6 are presented based on the gaps in the existing literature.

CHAPTER 3 CORPORATE LEGITIMIZATION AND STAKEHOLDERS' REQUIREMENTS: CLASSIFICATION OF NON-FINANCIAL INFORMATION, CORPORATE CHARACTERISTICS, AND QUALITY OF NON-FINANCIAL INFORMATION

3.1 INTRODUCTION

While the previous chapter reviewed the wider accounting literature to explore the possible theoretical and conceptual explanations for the disclosure of non-financial information by UK companies in the absence of any regulatory requirements or any recognition from the professional accounting bodies, this chapter reviews a narrower part of the literature. The nature of the literature in this chapter differs from the literature review carried out in the previous chapter in the way it concentrates on the empirical findings of the previous studies. This chapter illustrates how the theoretical justification that was highlighted in the previous chapter could be empirically investigated. In doing so, the literature review carried out in this chapter explores the two key research questions raised in the previous chapter by presenting a number of supporting research questions relevant and related to each key research question.

Before starting to explore the two key research questions in sections 3.3 and 3.4, section 3.2 concentrates on discussing the classification of non-financial information categories into two groups of governance and non-governance information. Section 3.2 starts by discussing why it is important that non-financial information is divided into two groups of governance and non-governance information and how the two categories are related with each other. In sections 3.2.1 and 3.2.2, the relevant literature on governance and non-governance issues are reviewed. Based on the literature review in each of the two sections, a number of information categories were highlighted. This study will treat these information categories as the main governance and non-governance information categories to consider for investigation.

The chapter is continued in section 3.3 where the empirical literature relevant to the first key research question is reviewed. The first key research question raised the issue of whether UK companies disclose non-financial information to legitimise their corporate behaviours to their stakeholder groups. The previous chapter revealed that companies often disclose social and environmental information following social or environmental incidents in an attempt to legitimise their behaviours. In this study, as stated in the previous chapter, companies could disclose information to legitimise their behaviours not necessarily after social and environmental incidents but to legitimise those aspects of their behaviours that arise as a result of their corporate characteristics. Thus, in this chapter the literature on four corporate characteristics will be reviewed in sections 3.3.1 to 3.3.4. The four corporate characteristics are: industrial affiliation, size, growth and performance. Based on the literature review for these four characteristics, four supporting research questions will be posed to explore the first key research question.

In section 3.4 the literature relevant to the second key research question, which was posed to supplement the first key research question, is reviewed. The second key research question raised the issue of 'quality' of non-financial information, and, more specifically, whether UK companies disclose non-financial information to meet the information requirements of their stakeholder groups. It was argued that if companies disclose non-financial information to legitimise their behaviours, they are very unlikely to pay much attention to the quality of non-financial information. Therefore there is expected to be little stakeholder dialogue between companies and their stakeholder groups. In sections 3.4.1 and 3.4.2, two aspects of stakeholder dialogue are explored based on which two supporting research questions are presented to investigate the second key research question.

This chapter is concluded in section 3.5.

3.2 Classification of Non-Financial Information - Why Governance and Non-Governance Information

This study considers only those non-financial information categories that were disclosed externally by companies. As non-financial information categories considered in this study do not measure the extent of disclosure, it was decided to use the term information 'category' and not information 'item'. Each information category, considered in this study, could embrace a number of information items.

Non-financial information categories are divided into two groups of governance and non-governance information categories. As it was explained in section 1.3 information on managerial issues and those internal matters, which are related to corporate managerial structures, are regarded as governance information categories. Non-governance information, on the other hand, embraces those non-managerial issues that are concerned with both internal and external matters. As it will be shown in section 3.3, many of the non-governance information are commonly regarded as social information in the literature (see Table 3.6). In this study, reference is also made to non-financial information. By non-financial information, we mean all those information categories that are included in both governance and non-governance information categories.

The two groups of governance and non-governance information categories are believed to be closely linked as companies, which intend to project certain image of themselves or to attempt to legitimize their behaviour, are expected to disclose both governance and non-governance information. The previous chapter reviewed the relevant literature on how companies can disclose non-financial information (i.e. mainly social and environmental information) to legitimise their behaviours. At the same time, companies are expected to disclose information on their governance structures to provide assurances that they do have the appropriate managerial structures to enable them to behave in a socially desirable manner.

Windsor and Preston (1988) link the concept of organisational legitimacy to that of corporate governance, claiming that corporate governance and corporate social responsibility are fundamentally and closely related aspects of the interaction between the organisation and its internal and external social and political environments. They argue that the corporate governance structure:

> "...determines the firm's objectives, policies and strategies, they also establish the firm's legitimacy as a social entity. ... Since the changing social norms is a difficult process, it is likely that most organisations will either adapt to the constraints imposed by the requirement to be legitimate or will attempt to identify their present output, values and methods of operations, with institutions, values, or outputs that are strongly believed to be legitimate." (Windsor and Preston, 1988: p45)

In other words, the governance structure of a company is determined by external factors, ranging from economics and financial factors to legal and social ones (Wilkes and Samuels, 1991). In a recent report by the Chartered Institute of Management Accountants (CIMA), several advantages of having a sound governance structure (shown in Table 3.1) are identified among which 'transparency' and 'social accountability' to gain public confidence in companies are mentioned. UK companies are therefore expected to disclose information to show that they have sound governance structures.

TABLE 3.1 BENEFITS OF A GOOD GOVERNANCE STRUCTURE

Benefits of a Good Governance Structure
1. *Reduce Risk* – A mechanism that reviews and reduces the risk of fraud. 2. *Stimulates performance* – it institutes clear accountability and effective links between performance and rewards, 3. *Improves access to Capital* – It reduces the level of risk as perceived by outsiders, 4. *Enhances marketability of goods and services* – It creates confidence among other stakeholders, including employees, customers, suppliers and patterns in joint venture, 5. *Improves leadership* – It allows increased expertise to be brought in. 6. *Demonstrates transparency and social accountability* – This fosters political support for, and public confidence in, the organisation.

Source: Extracted from *Corporate Governance*, CIMA, (1999: p1).

The above literature suggests that apart from the disclosure of information on governance structures, companies are expected to disclose information on those aspects of their operations and business conducts that are perceived to be socially acceptable. The following two sub-sections provide explanations for the information categories included in each group.

3.2.1 Governance Information

Corporate governance can be described as the way a company is managed or as ".. the system by which companies are directed and controlled" (Cadbury code para. 2.5). Burchell, Gordon and Miller (1991: pviii) describe governance as "… an activity and an art which concerns all and which touches each. And it is an art which presupposes thought" and Starkley (1995) defines governance as "... more than the legitimisation of authority or the taming of power. Governance lies in the heart of the organisations we work in and live our lives through" (p843).

Corporate governance is about the structures and processes associated with decision-making and control within an organisation. Traditionally it covered issues of stewardship, accountability, monitoring, evaluation, and control of managers to ensure that they behave in the interest of shareholders. The governance structures of UK companies are commonly known as 'Anglo-Saxon' and have a number of characteristics, which are shown in Table 3.2.

TABLE 3.2 CHARACTERISTICS OF ANGLO-SAXON GOVERNANCE STRUCTURE

Governance Structure	Characteristics
Anglo-Saxon Structure	1. Separation of ownership and control, 2. Utility maximization behaviour of managers, 3. Information is a private good, 4. Lack of communication, lack of trust, 5. Resistance to change, conservatism, 6. Higher levels of centralisation and formalisation.

Source: Extracted from Monks and Minow (1995: pp 271-2)

These characteristics raised some concerns for corporate owners. In an Anglo-Saxon company the separation of ownership and control has allowed managers to have the freedom to act in their own interests. Company directors can make decisions without explaining their actions to corporate owners. Corporate owners[50] of large publicly quoted companies do not usually participate in management decisions and there is often little communication between companies and their owners about the day-to-day corporate operations. In addition, information is a private commodity, owned by the companies, and can be utilised for private gains in the market place[51] (Prodham, 1993). In such circumstances companies disclose information to provide assurances that the required monitoring and control measures are in place and managers do not take advantage of their managerial positions (Starkley, 1995).

In the UK 70% to 80% of shares are held by institutional investors (*Modern Company Law*, 1999), who are frequently mentioned as a potentially important force for

[50] For example, equity owners, holders of bonds, or bankers providing loan finance.

improving corporate governance (Lunt, 1992; and Huddart, 1993). The diffuse ownership of public corporations had given the managers greater power over fundamental decision making. The increase in institutional investment and the increasing awareness of institutional investors of their roles as corporate owners (Mallin, 1995) should diminish the power and control of managers (Monks, 1993). The best example of this is the introduction of the regulatory recommendations on corporate governance structures in 1990s.

During the late 1980s to early 1990s, a series of high-profile corporate disasters (e.g. Asil Nadir's Polly Peck International, Robert Maxwell's MGN/Pergamon Empire, and the Bank of Credit and Commerce International) resulted in concerns being raised over stewardship and the effectiveness of a system which was heavily self-regulated (Keasey and Wright, 1993). The pressures from shareholders to devise monitoring measures on top management were to lead to the publication of the "Cadbury code of best practice" by a Committee on the Financial Aspects of Corporate Governance (commonly known as the Cadbury Committee) in December 1992.

The Cadbury code of best Practice sought to introduce guidelines and recommendations to ensure control over the utility maximizing behaviour that may arise from the separation of ownership and control (Para. 1.2 of the Code). Recommendations were also made on the role of non-executive directors as a strong independent element on the boards, who would act as experts in decision control (Para. 1.3 of the Code). One of the main purposes of the Cadbury code was to reduce the utility maximising behaviour of executive directors by strengthening the monitoring and decision control functions of

---

[51] To avoid this, incentives are introduced to make sure that managers act in the interests of their owners, thereby reducing their utility maximising behaviour (Jensen and Meckling, 1976).

non-executive directors. Furthermore, the need to make executive directors more accountable to shareholders, and the need to establish effective audit, nomination, remuneration and compensation procedures were recognised.

The recommendations of the Cadbury code are aimed at raising the quality of corporate governance. By disclosing information on compliance with the Cadbury code, companies intend to present themselves as having sound governance structures. Conyon and Mallin (1997) observed a high compliance with the recommendations of the Cadbury code for the large UK companies in 1995. They found that among the Top 100 UK companies 85.2% of companies had separate positions for chief executive officer (CEO) and chairman, and 98% of companies had remuneration and audit committees. In comparison, they observed a low compliance for nomination committee (i.e. only 51% of companies had nomination committees). This heavily undermined the independence of procedures adopted by companies in appointing their executive and non-executive directors and therefore the element of an independent factor in decision-making procedures in various board committees.

Buckland and Doble (1995) compared the composition of boards with the Cadbury code's recommendations and found further evidence of non-compliance. Their evidence showed that not only did newly-quoted UK firms choose to be *less well governed* than the Cadbury code had recommended, but there was no evidence in either their characteristics nor on their subsequent history to suggest that their compliance or non-compliance had any significant effect on their behaviours or on their survivals. Furthermore, it was found that non-compliant companies were marginally more likely to survive as independently quoted or listed businesses than those entrants with separate positions for chairman and CEO or the ones with high compliance with Cadbury in their numbers of non-executives. The findings of the study by Buckland and Doble (1995) clearly suggests that despite the common perception that compliance with the Cadbury code would indicate sound governance structures and provide assurances to the shareholders (*Corporate Governance,* CIMA, 1999: p4) many companies chose not to comply.

Another issue of concern was directors' remuneration. In an attempt to improve control over managerial pay and their other pecuniary benefits, the code recommended information disclosure on all pecuniary benefits enjoyed by the directors. There was specific reference to forming remuneration committee, which consisted wholly or mainly of non-executive directors and was chaired by a non-executive director (Cadbury code, para. 4.42). The presence of non-executive directors in all board committees is aimed at ensuring that managers would not be unfairly rewarded large sums. Despite all the recommendations, evidence for non-effectiveness of the measures were found. For instance, Conyon and Leech (1994) found evidence that the separation of the highest paid directors from the CEO position had no effect on pay. Also, Hamberic and Finkelsstein (1995) presented evidence showing that the pay conditions for CEOs differed widely depending on whether there was a powerful shareholder with a significant holding.

One of the central aspects of the corporate governance in the UK is the extensive attention that has been paid to shareholders and to their interests. The Anglo-Saxon companies are regarded as a piece of property, owned by their shareholders, and are not seen as a community with obligations to their employees, consumers and their other stakeholders. Inevitably most of the emphasis is on companies to disclose governance information that meets the information requirements of investors. This is reflected in the Hampel Report (1998):

> "The single overriding objective shared by all listed companies, whatever their size or type of business, is the preservation and the greatest practicable enhancement over time of their shareholders' investment. All boards have this responsibility and their policies, structures, compositions and governing processes should reflect this. A company must develop relationships relevant to its success. These will depend on the nature of the company's business; but they will include those with employees, customers, suppliers, credit providers, local communities and governments." (Hampel Report, 1998: para. 1.16)

Although the Hampel report draws attention to the presence of other stakeholders such as employees, customers, suppliers, credit providers, local communities and governments (Hampel Report, 1998: para. 1.16) it holds companies accountable to their shareholders only (ibid: para. 1.17). The report argues that if a company is held accountable to all its stakeholders it would mean that companies are effectively held accountable to no one.

In terms of non-financial information, the Hampel Report (1998) states that:

> "...auditors are required by auditing standards to review other financial and non-financial information in the annual report and to report on any inconsistencies between these and the statutory financial statements." (Ibid: para. 6.6)

The report provides no guidance on what is meant by non-financial information. None of the reports published in relation to corporate governance have paid any attention to the interests of other stakeholder groups and there was no mention of social, ethical or environmental issues (*Corporate Governance,* CIMA, 1999).

This study considers 13 information categories as the main governance information disclosed by UK companies in 1995 (shown in Table 3.3). Most of these information categories were recommended by the Cadbury Committee (1992). The only category that was not recommended but was considered here is the 'environment committee'. This information category was considered since many companies had an environment committee in 1995. Also 'outside director' was another category that was not explicitly mentioned by the Cadbury code. Even though the term 'outside' director is the same as the 'non-executive' director and is commonly used in the US literature it was decided to treat it as a governance information category, as it was mentioned by a few companies.

TABLE 3.3 GOVERNANCE INFORMATION CATEGORIES

1. Non-Executives Directors
2. Executive Directors
3. Outside Directors
4. Separation of Chief Executive Officer and Chairman Positions
5. Shares Held by Senior Managers
6. Options Held by Senior Mangers
7. Salary and Bonuses
8. Pension
9. Audit Committee
10. Remuneration Committee
11. Nomination Committee
12. Environment Committee
13. Compensation Committee

The disclosure of information categories considered in this study is not mandatory and companies disclose information at their own discretion. Under the recommendations of the Cadbury Committee (1992) voluntary codes are more effective than 'statutory' requirements. This is predominantly because when companies are under pressure from the stock exchange and their stakeholder groups they can maintain more flexibility to remain responsive as it suits their corporate and their board structures (the report published by Cadbury Committee, 1992: para. 1.10). The importance attached to each category is highlighted in the report by the Cadbury Committee (1992).

And finally, while there have been many reports and recommendations by various regulatory committees from 1992 onward (e.g. reports by the Cadbury committee, 1992; Greenbury committee, 1995; Hampel committee, 1998; as well as the Combined code, 1998; and the Turnbull report, 1999), this section mainly focuses on the issues that were raised in the Cadbury report. This was because the period under investigation by this study is between 1985 and 1995 and most recommendations, which were issued after 1995, would not apply to this study. As a matter of interest, the latest developments in the corporate governance regulations are stated in Appendix 3A.

3.2.2 Non-Governance Information

Non-governance information categories cover those non-managerial issues that are about both internal and external aspects of a company. While the literature regards most of the non-governance information categories as social information, in this study the information categories are referred to as 'non-governance', which is a more comprehensive term than 'social'. Although companies appeared to disclose different categories of non-governance information, it was decided to include those information items that were most commonly being mentioned in the existing social and environmental literature as well as being disclosed by UK companies. This study considers 10 information categories, which are shown in Table 3.4.

TABLE 3.4 NON-GOVERNANCE INFORMATION CATEGORIES

1. Environmental Issues
2. Health and Safety
3. Discrimination
4. Working Conditions
5. Training
6. Employee Share Ownership
7. Communication with Employees/Others
8. Community Involvement
9. Research and Development
10. Renewal of Technology

Some information categories, shown in Table 3.4, cover issues that are related to each other. For instance, 'working conditions' and 'health and safety' issues are closely related. The importance based on which each information category was selected is discussed in Table 3.5 where the importance attached to each information category is highlighted and the justification for the inclusion of each category is provided.

TABLE 3.5 A BRIEF LITERATURE REVIEW OF NON-GOVERNANCE INFORMATION CATEGORIES

Non-Governance Information Categories
1. Environmental Issues
With the rising public awareness on environmental issues in the mid 1980s, there was an increasing level of non-financial information in the corporate annual reports. At the same time, the importance of environmental reporting was being highlighted in the academic literature since the mid 1980s (mainly the work of Gray *et al*). In the early 1990s, there were recommendations by the Advisory Committee on Business and the department of Environment to the UK institutional investors on the voluntary disclosure of environmental information. There were also attempts by the Confederation of British Industry (CBI) for the voluntary publication of their environmental policies and their progress in achieving their objectives (Gray *et al*, 1996: p170).
2. Working Conditions
The general working condition of a company can affect the way employees co-operate in companies' operations to improve product quality and cost reduction (Adams, Carrutners and Hamil, 1991: p11). There are various aspects that determine the working conditions of a company. Some of these aspects, which are extracted from *Self-reported working conditions in 1995* (1997), are: tight deadlines, how often there is a need to work under tight deadlines, lack of control over his or her work, lack of or inadequate support and/or help, too much work, too little work, unhealthy working environment (e.g. breathing fumes, dust or other harmful substances, or handling or touching harmful substances), uncomfortable heat or cold, noise, ergonomic aspects (i.e. poor workplace or condition can put workers' muscles and joints at risk, causing backache, sore shoulders or elbows and etc) and violence. Poor working condition can result in either stress or ill health, which would mitigate employees' motivations and loyalties, leading to poor productivity. For instance, noisy environment, threat of being attacked by customers, working under pressure to meet tight deadlines on regular basis can all lead to stress related illnesses. In 1993, a national quality standard, called 'Investors in People', was launched to set a level of good practice for improving organisations' performance through their employees. Many have large companies work with their investors in people. Companies such as Cadbury and Kiwik Fit have experienced the impact that the standard has on performance. Those companies, which work with Investors in People, have seen higher productivity and profitability rise, improved motivation and a higher quality staff (*Investors in People*, 1998). For instance, Investors in People standard ensures staff development (i.e. provision of training courses), equality of opportunity and improvement of employees' performance.

Non-Governance Information Categories

3. Health and Safety

Under the Health and Safety Act (1974), companies are required to take reasonable practical steps to ensure health and safety of their employees. Health and safety applies to all companies across various industries, ranging from heavy industry to service sector. For instance, in heavy industry, health and safety issues are likely to be more visible. Companies are required to employ physical safety devices when necessary (Aikin, 1997). An example of this is the case of R v Rhone-Poulenc Rorer Ltd (1995 TLR 629; CA), when the employer had a written code of practice and had given explicit instructions to people to use devices. In service sector, health and safety can be in the form of long-term physical, mental and emotional varieties. For instance, in a US study, 14% of all occupational disease compensation insurance claims were stress-related (La Bar, 1989).

There have been numerous guidelines by health and safety commission to companies to report on their health and safety regulations and procedures[52].

4. Discrimination

In order to avoid discrimination at work place, various legislation have been enacted over the years. There are various categories for equal opportunity among which gender, ethnicity, age, mental and physical disabilities and religion can be regarded as the most common types. Although there have been many legislation related to equal opportunity over the years together with a number of business initiatives (see Appendix 3B), companies are under no legal obligations to report on their equal opportunity practices. There have been a number of proposals over the years, recommending companies to disclose information on different aspects of equal opportunity. Despite the number of proposals and recommendations, the reporting practice has remained non-mandatory.

In a study by Adams and Harte (1999), evidence was found, indicating " … a corporate unwillingness to … present a full and frank account of their employment practice" (p63). Adams and Hatre (1999) carried out investigation on the Top 100 UK companies between 1991 and 1995, and found little development in the disclosure practice over time. They also found evidence that in 1991, 34 companies had failed to fully comply with the legal requirements to report on the employment of disabled workers.

[52] Only recently, health and safety commission published a report that aims at promoting publication of guidance by March 2001, to allow companies to report on their health and safety standards. (*Revitalising Health and Safety*, 2000).

Non-Governance Information Categories
5. Training As part of commitment to employees, training procedures are offered to provide them with skills and knowledge required for the employees to maintain certain level of competitiveness with the European companies. Job-related training programmes can improve working conditions as well as raising the skills of the employees (Adams *et al* 1991: p10).
6. Employee Share Ownership Employee share ownership schemes are designed to encourage the financial participation of employees so that their interests will be in alignment with companies' interests. These schemes are expected to enhance employee loyalty, motivation and commitment. Employees are also expected to become more financially informed about their companies and have a more in-depth understanding of companies operations. Bradley, Estrin and Taylor (1990) carried out a study of John Lewis Partnership, which is entirely employee owned and found that the company was considerably more successful than other retailers. There have, however, been evidence by other studies showing that, employee share ownership did "… not lead to an increase in the financial awareness of employees and has not lead to employees taking a closer and a better informed interest in the performance of their company" (Peel and Pendlebury, 1999: pii). Although there have been other studies presenting similar evidence as those of Peel and Pendlebury (1999) (i.e. Groves, Peel and Pendlbury, 1995), it was decided to include employee share ownership as a non-governance information category. This was because the evidence found by Peel and Pendlebury and others can not be generalised as it is difficult to assess the impact of individual schemes on the good overall financial performance (Bradley et al, 1990). It is therefore not possible to overrule the purposes for which the schemes have been designed. At the same time, there has been a number of legislation to encourage employees to participate financially. For example, the 1978 Finance Act (introduced tax relief for approved share based profit sharing schemes), the 1980 Finance Act (introduced tax relief for Save As You Earn share ownership schemes) and the 1987 Finance Act (introduced cash based profit related pay schemes) resulted in the employee share ownership schemes over the years (Peel *et al*, 1991).

Non-Governance Information Categories
7. Communication with Employees/Others   From a legal point of view (Companies Act 1985), companies with a total number of 250 employees or more are required to explicitly state in their corporate annual reports that they communicate with their employees. In doing so, companies are required to keep their employees well informed of the decisions and matters that affect them. Companies are also required to indicate that they communicate with their employee representatives on regular basis, providing employees with an opportunity to voice their views and concerns (as required by Employment Protection Act, 1982).   Other issues that can come under this category are employees' involvement in different boards and committees of their companies.
8. Community Involvement   There are different types of information items that can be disclosed. For instance, 'Business Community' was set up in 1981 so that private sector companies could get involved in various schemes in the local communities, e.g. education, training, retraining and other schemes, which elevate social standards (Adams *et al*, 1991).   In this study, charitable donations and donations to political parties are regarded as community involvement. Under the Companies Act 1985, companies are required to state their charitable donations of £200 or more.
9. Research and Development   Research and development in a company can be associated with the enhancement of knowledge and skills, which are required in the manufacturing process to gain companies' competitive advantage so that new products can be produced and launched (Nordberg, Campbell and Verbeke, 1996). Companies are often secretive about their research and development and many of them tend to disclose as little information as they possibly can (Mathews, 1993: p83).

Non-Governance Information Categories
10. Renewal of Technology Companies operate in external environments, which expose them to new demands by their stakeholders. Stakeholders' demands are changed and formed with the advancement in technologies. Those companies that intend to remain responsiveness to the external forces and maintain competitive status, are expected to renew their technology on regular basis. Renewal of technology is also in line with job training and advancement in technology so that they are provided with a better means to carry out their tasks and duties. The author believes that the renewal of technology would contribute to a better working environment. Companies are expected to introduce new technology in order to remain responsiveness to their external environments and to improve their relationships with their stakeholder groups. For instance, the new technology would increase the productivity as well as improving the quality of products and services leading to competitive advantage (Jackson and Reburn, 1999; and Lazonick, 1993). Another significant purpose served by technology is in communication. The advancement in computer technology and the widespread use of internet have enabled companies to elevate their communication means with their employees, customers and suppliers and other stakeholder groups (Han, 1997). Often, the introduction of new technology is followed by the introduction of training programmes so that staff can develop the relevant skills and evolve knowledge that needs to be applied.

3.3 CORPORATE CHARACTERISTICS

Having observed a rise in the level of non-financial information disclosure between 1985 and 1995, the next stage is to select a number of corporate characteristics so that the first key research question can be investigated by examining if there are any associations between non-financial information disclosure and corporate characteristics. This is done by asking a number of supporting research questions, which is used in investigating the main research question.

There is a large volume of literature containing different studies which examine the associations between different corporate characteristics and social and environmental reporting. Some of these studies and a brief summary of their findings are shown in Table 3.6.

The corporate characteristics that are selected for the purpose of this study are: industrial affiliation, corporate size, corporate growth and profitability. Apart from corporate growth, all these characteristics were commonly used in previous studies. This section reviews the literature on four corporate characteristics and project expectations on whether companies with certain characteristics disclose more non-governance information.

To the knowledge of the author, no previous study has attempted to examine the association between corporate characteristics and governance information disclosure. In this study, the association between corporate characteristics and governance information disclosure is examined for the first time. It is expected that for the period before the publication of the governance codes of practice (i.e. for 1985), corporate characteristics and governance information disclosure are associated. Over this period, companies were under no regulatory requirements to disclose governance information. As a result, the few companies that disclosed governance information (as shown in the previous section) are expected to be different to other companies in the sample in terms of their corporate characteristics.

As there is no previous literature, it is not possible to form expectations on associations between governance information disclosure and corporate characteristics for the period before 1992 based on the previous literature. For this period, the same logic as for non-governance information is applied to form expectations on the possibility of association between governance information disclosure and corporate characteristics.

Since the publication of the Cadbury Code in 1992, all companies are expected to disclose governance information at similar levels. This is primarily because the recommendations on good governance practice is for all companies regardless of their characteristics and they are intended to promote good governance practice to ensure investors that managers act in their best interests. No association is, therefore, expected between corporate characteristics and governance information disclosure in 1995.

In the case of non-governance information, the expectations on associations with corporate characteristics are discussed in sections 3.3.1 to 3.3.4. Many of the early studies that examined corporate social responsibility and social and environmental reporting did not distinguish between the two. Many of the studies that were carried out in 1970s refer to corporate social responsibility of companies rather than social information disclosure. In 1970s, indexes or rankings that were used by professional judges were used by some studies as measures of corporate social responsibility. For instance, Sturdivant and Ginter (1977) used an index from the *Council of Concerned Businessmen.* Moskowitz (1972 and 1975) used rankings from *Business and Society.* Bragdon and Marline (1972), Folger and Nutt (1975) and Spicer (1978) used the *Council of Concerned Businessmen Pollution Performance index.* Another example is the work of Parket and Eilbert (1975), where corporate willingness to respond to a questionnaire on social responsibility was used to represent corporate social responsibility. Even though these studies did not measure the level of social information disclosure, they can still be used in this study as the two are believed to be closely linked. The close link between the two is supported by the evidence found by Bowman and Haire (1975), who found a positive association between emphasis on corporate social reporting and corporate social responsibility[53].

Using the context of stakeholder and legitimacy theories, it was argued that in the absence of any regulatory or obligatory requirements companies are likely to disclose non-financial information for legitimacy purposes by adopting Lindblom's C. K. (1994) strategies 2, 3 and 4. For instance, companies may use information: i) to change the perception of their relevant public without having to change their actual behaviours, or ii) to manipulate that perception, deflecting attention from issues of concern to other related issues, and/or iii) change external expectations of its performance (see section 2.3.1 in *Chapter 2*).

[53] Bowman and Haire (1975) used Moskowitz's ratings.

TABLE 3.6 STUDIES ON CORPORATE CHARACTERISTICS AND CORPORATE SOCIAL RESPONSIBILITY/INFORMATION DISCLOSURE

Researchers	Principal Findings	Size	Industry	Performance
1. Moskowitz (1972)	Positive association between corporate social responsibility and rate of return on shares.			✓
2. Bragdon and Marlin (1972)	Positive association between corporate social responsibility and accounting-based measures of performance			✓
3. Longstreth and Rosenbloom (1973)	A negative association between systematic risk and social responsibility disclosure.			✓ (-ve)
4. Eilbirt and Parket (1973)	Positive association between size and social activities.	✓		
5. Folger and Nutt (1975)	No association between pollution control and market performance.			✗
6. Parket and Eilbirt (1975)	Positive association with accounting based measures of performance			✓
7. Vance (1975)	No significant relationship between social responsibility disclosure and stock market performance.			✗
8. Bowman and Haire (1976)	Positive association between social disclosure and rate of return on equity.			✓
9. Belkoui (1976)	Companies with higher pollution disclosure appeared to have higher share prices			✓
10. Sturdivant and Ginter (1977)	Significantly higher growth in EPS for companies with high social disclosure.			✓
11. Spicer (1978)	Positive association between pollution control and each of the size and market performance.	✓		✓
12. Chugh et al (1978)	Corporate social responsibility results in higher systematic risks.			✓
13. Alexander and Bucholz (1978)	No significant relationships between corporate social responsibility and systematic risk.			✗
14. Ingram (1978)	Positive association between social responsibility and industry type.		✓	
15. Abbott and Monsen (1979)	No significant relationship between total returns and social disclosure.			✗
16. Kelly (1979)	Positive association between disclosure of corporate social information and corporate size, type of industry and size of industry	✓	✓	
17. Burke (1980)	Positive association between corporate size and disclosure of social information	✓		
18. Trotman and Bradley (1981)	Positive relationship between size and corporate social disclosure. Companies with social disclosure have a higher risk and place larger emphasis on long-term than companies with no social disclosure.	✓		✓
19. Pang (1982)	Larger companies were found to disclose more social information	✓		
20. Stevens (1982)	Positive association between pollution control and market performance.			✓
21. Gul, Andrew and Teoh (1984)	Companies in certain industries and larger companies disclosed more social information	✓	✓	
22. Mahapatra (1984)	Corporate social responsibility results in higher systematic risks.			✓
23. Cochran and Wood (1984)	Positive association social responsibility (measured using Moskowitz's ranking) and financial			✓

Researchers	Principal Findings	Size	Industry	Performance
	performance.			
24. Freedman and Stagliano (1984)	No association between pollution control and market performance.			✓
25. Mills and Gradner (1984)	Positive association between social responsibility and financial performance.			✓
26. Aupperle, Carroll and Hatfield (1985)	No association between corporate social responsibility and market based of risk and performance (as measured by return on assets). Negative association was found with accounting-based measures of risk.			✓ (-ve)
27. Davey (1985)	No association was found between corporate size and social information disclosed by companies	✗		
28. Ng (1985)	No association between industrial background of companies and disclosure of social information.		✗	
29. Cowen, Ferreri and Parker (1987)	Found that industry helps to explain energy and community disclosure. Significant positive relationship between company size and social disclosure.	✓	✓	
30. Freedman and Jaggi (1988)	Found that profitability does not help for to explain pollution disclosure for the oil industry		✓	✗
31. McGuire, Sundgren and Schneewies (1988)	Positive association between profit and corporate social responsibility and negative association between corporate social performance and risk.			✓ (Profit), ✓ (-ve) (risk)
32. Belkaoui and Karpik (1989)	Social disclosure was found to be positively associated with social performance, economic performance, and political visibility as measured by size. Negative association was found between social disclosure and contracting and monitoring costs as measured by gearing ratio.	✓		✓ (-ve)
33. Ness and Mizra (1991)	Higher social and environmental disclosure for oil industry.		✓	
34. Roberts R. (1992)	Positive association between rate of return on equity and corporate social responsibility, and negative association between corporate social performance and systematic risk.			✓ (ROE), ✓ (-ve) (risk)
35. Graves and Waddock (1994)	Purchase of shares in companies increases when corporate social performance improves.			✓
36. Hackston and Milne (1996)	Found higher social and environmental disclosures in high profile companies. Positive associations between social and environmental disclosure and size. No relationship was found with profitability.	✓	✓	✗
37. Adams, Hill and Roberts (1995, 98)	Found that industry explains some environmental and some employees disclosures. Also, social and environmental disclosure can be explained by size.	✓	✓	
38. Gray, Javad, Power, Sinclair (1999)	Found that social and environmental disclosure is related corporate size, profit and industrial affiliation.	✓	✓	✓

Note: ✓ denotes an association with corporate social responsibility when statistically examined. ✗ Denotes no association with corporate social responsibility when statistically examined. It is important to note at this point that the above studies were carried out on different sample in different countries. Also, different items were considered by different studies to form the overall corporate social responsibility.

3.3.1 Industrial Affiliation

The findings of the previous studies (shown in Table 3.6) unanimously suggest that social and environmental reporting is associated with the industrial affiliation. Based on the findings of the previous studies, this study also expects that the level of non-governance information would vary for companies in different industries. For instance, companies in mineral extraction and utilities industries are expected to have higher non-governance disclosure than companies in service industry due to the nature of their operations. Since 'mineral extraction' and 'utilities' industries are involved in many 'environmental' issues and 'health and safety' measures, they are expected to provide extensive training and high level of technical expertise to their employees.

Companies in different industries have different stakeholder groups, with different non-governance information requirements and are expected to put companies under different pressures to meet their information requirements. Companies are, therefore, expected to disclose higher level of non-governance information in response to the varying degree of pressures that they receive from their stakeholders. Thus, the *first supporting research question* is presented as follows:

> *"Are there any associations between industrial affiliation and disclosure of non-financial information?"*

Due to the nature of their operations, companies in certain industries can not perform certain socially desirable behaviours in which case they use the disclosure of non-financial information to legitimise their own behaviours by adopting one of the Lindblom's C. K. (1994) strategies (i.e. strategies 2, 3 and 4).

3.3.2 Corporate size

Size is another corporate characteristic, which has been of interest to researchers over the years and could be regarded as one of the potential reasons for those companies disclosing higher levels of non-financial information. The overall perception from the previous studies (shown in Table 3.6) suggests that large companies disclosed more social and environmental information as they are believed to be more in the public eye and under more under scrutiny (Dierkes and Coppock, 1978). They are, therefore, expected to present themselves as having the same norms and values as those of the society, and they achieve this through information disclosure. Information disclosure enables large companies to adopt any of the four strategies introduced by Lindblom C. K. (1994) (section 2.3.1 in *Chapter 2,*) and, subsequently, attempt to legitimise their behaviours.

Based on the findings of the previous studies and the expected tendency of larger companies to legitimise their behaviour to their stakeholders, larger companies are expected to disclose more non-governance information. Therefore, the second supporting research question is presented as follows:

> *"Are there any associations between corporate size and disclosure of non-financial information?"*

Corporate size can be measured using a number of proxies (e.g. number of employees, annual turnover and total market value). In this study, 'annual turnover' is chosen as size proxy. This is mainly because the Top 100 UK companies were selected from the *Times 1000,* where companies were ranked according to size, which was measured in terms of annual turnover.

3.3.3 Corporate Growth

Apart from corporate size, another characteristic, which is closely linked with size is corporate growth. As far as the previous literature is concerned, no study was found to have assessed the association between corporate growth and non-financial information.

There are many factors that can affect corporate growth. This study takes the view that among other factors, growing companies need to gain the loyalty of new customers, the trust of new suppliers and creditors. Hence, they are likely to project a socially desirable picture of themselves to their relevant public, and they can achieve this by the disclosure of non-governance information. The third supporting research question is, therefore, concerned with whether growing companies disclose more non-financial information than non-growing companies and more specifically asks:

> *"Are there any associations between corporate growth rates and disclosure of non-financial information?"*

3.3.4 Corporate Performance

The fourth corporate characteristic selected is corporate performance. Corporate performance is another characteristic, which has been commonly used by researchers over the years, representing different aspects of corporate performance. The findings of the previous literature (shown in Table 3.6) suggest that the disclosure of non-financial information is associated with the overall corporate performance.

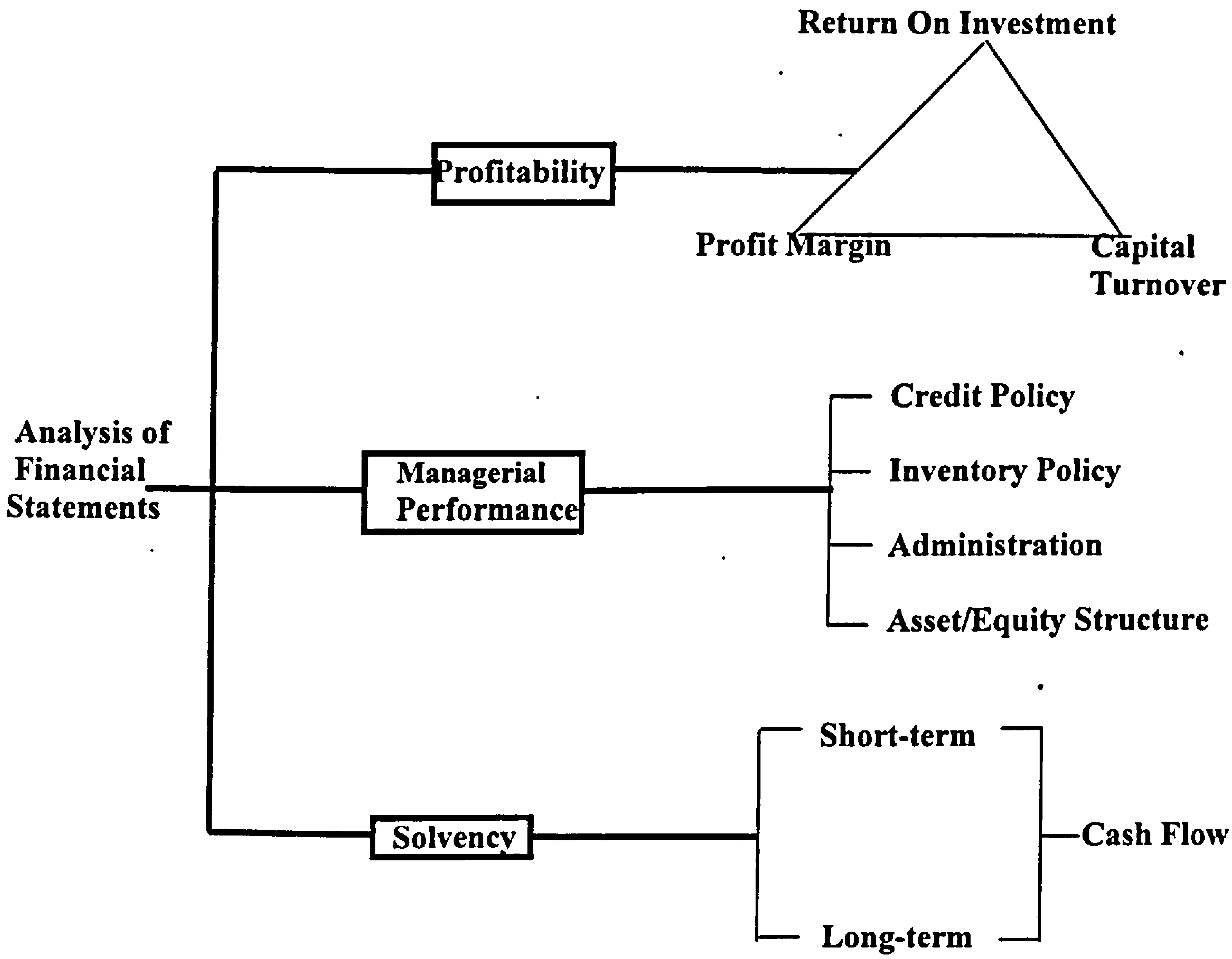
Corporate performance is measured using either accounting-based measures (e.g. gearing, return on investment and return on assets) or market-based measures (e.g. systematic risk, market return and dividend yield). Accounting-based measures are more commonly used by previous studies than market-based measures (for more details see McGuire, Schneeweis and Hill, 1986) as they are more easily available from annual reports and from different data sources. There are, however, several shortcomings in using them. Accounting-based measures reflect historical aspects of firm performance (McGuire *et al*, 1986). They are also prepared using accounting conventions, which are subjective and, therefore, prone to risk of bias and managerial manipulations (McGuire *et al*, 1986). Furthermore, accounting-based measures should be adjusted for risk, industrial affiliation and other variables (Ullmann, 1985).

In contrast, market-based measures do not have the shortcomings of accounting measures. They are less open to bias or managerial manipulation. They do not rely on past performance. Consequently, investors can use them to elevate their perception of a company's ability to generate future economic earnings (McGuire, Sundgren and Schneeweis, 1988). However, a shortcoming of market-based measures is that performance is viewed from investors' viewpoints and ignores other stakeholder groups (McGuire *et al*, 1988).

In this study, the author has decided to use accounting-based performance measures for a number of reasons. Firstly, they represent different performance aspects, which are of interest to different stakeholder groups, rather than using market-based measures, which reflect only the interests of the investors. Secondly, the disclosure of non-financial information is likely to be based on a decision that was taken by a company a while ago and is therefore as a result of the past performance. In consideration of this it would be more suitable to use accounting-based performance measures.

Different ratios can be used as accounting-based performance measures. There is a range of financial ratios that present various aspects of a company's financial performance (i.e. corporate profitability, managerial performance and corporate solvency) (see Figure 3.1). In 1978, Courtis introduced a categorical framework for financial ratios. Courtis divided the ratios into three main categories: profitability, managerial performance and solvency. Each category was divided further into other sub-categories (see Figure 3.1). In another study, Laurent (1979) provided evidence on Hong Kong public limited companies and started his work using Courtis's framework to develop a set of ten ratios, which were found to be relatively comprehensive in covering different financial aspects. Although Courtis and Laurent developed comprehensive ratio models, they clearly agreed that their models provided a collection from which analysts can select ratios for the financial aspects they wish to assess. Courtis's model is shown in Figure 3.1.

FIGURE 3.1 THE CATEGORICAL FRAMEWORK FOR FINANCIAL RATIOS DEVELOPED BY COURTIS (1978)



As there are no specific set of ratios used by all the analysts and researchers to present different aspects of corporate performance, this study adopts a similar framework as the ones applied by Courtis and Laurent. This resulted in the selection of three aspects of corporate performance, which are: (a) profitability, (b) managerial performance and (c) solvency ratios. The model selected in this study is shown in Figure 3.2.

FIGURE 3.2 RATIOS REPRESENTING DIFFERENT ASPECTS OF CORPORATE PERFORMANCE MEASURES

Performance Measures	Ratios Representing Performance Measures
a. Profitability	1. Return on Shareholders' Equity (Rates of Return) 701
	2. Profit Margin 713
b. Managerial Performance	1. Turnover/Net Current Assets 723 (Asset Turnover)
	2. Capital Gearing (%) 731
	3. Operating Profit per Employees 763
c. Solvency	1. Working Capital 741

Ratios and their Codes Collected from the Datastream:

701 Return on shareholder's equity
713 Operating profit margin
723 Turnover/net current assets
731 Capital Gearing (%)
733 Borrowing ratio
741 Working Capital
763 Operating Profit per Employees

Therefore, the *fourth supporting research question* is:

> *"Are there any associations between different aspects of financial performance (e.g. profitability, managerial performance, gearing) and non-financial information disclosure?"*

The evidence from previous studies (shown in Table 3.6) shows that profitable companies are more likely to disclose more social information. For example, Roberts (1992) and Gray, Javad, Power and Sinclair (1999) found that social and environmental disclosures were positively associated with corporate profitability. Furthermore, companies that disclosed social information were likely to have lower implicit costs in exchange for higher explicit costs[54] (Cornell and Shapiro, 1987). This could be one reason that they are more profitable. In this study, companies that disclose non-governance information are expected to be more profitable.

The existing evidence also suggests that companies with a lower risk (i.e. lower gearing) disclose more social information (Aupperle, Carroll and Hatfield, 1985). One potential reason for this can be that companies with a higher level of disclosure are perceived to have a better image and are regarded by investors, lenders and banks to be subject to lower risk. As a result, these companies can have easier access to capital (i.e. they can borrow at a lower rate with more lenders being willing to lend them) (Spicer, 1978; and Moussavi and Evans, 1986). At the same time, in this study we assume that companies with lower gearing (i.e. companies with less risk) are expected to be highly liquid. Highly liquid companies are expected to disclose more social information (or non-governance information in the case of this study) to project a better image of themselves whereby they can have easier access to capital.

The above review of the literature suggests that profitable companies, companies with lower gearing and higher liquidity disclose non-governance information to legitimise their behaviours by adopting either of Lindblom's C. K. (1994) four strategies. Apart from gearing ratio, no previous study was found to investigate the association between managerial efficiency (i.e. asset turnover and productivity ratios) and social/environmental information disclosure. However, in this study it is assumed that companies with efficient managers (i.e. asset turnover and productivity ratios) would disclose social and environmental information.

---

[54] For instance, they are more likely to be sued and fined.

3.4 QUALITY OF NON-FINANCIAL INFORMATION

The evidence in *Chapter 4* (section 4.5) clearly shows an increasing level of non-financial information disclosure in the annual reports of the major UK companies between 1985 and 1995. Even though, this increase is suggestive of companies' intentions to be more open and transparent to their stakeholders, companies are expected to have taken actions to ensure the quality of non-financial information. SEAAR approaches are different for different companies as they are designed to serve the specific requirements of different stakeholders (Zadek *et al*, 1997; and Gonella *et al*, 1998). Those companies that adopt SEAAR are expected to emphasise five common aspects, which are:

1. Stakeholder identification,
2. Stakeholder dialogue,
3. Public disclosure,
4. Indicators and benchmarks, and
5. Continuous improvements.

As will be explained in the sub-sections 3.4.1 and 3.4.2, only the first two aspects ('stakeholder identification' and 'stakeholder dialogue') are considered for investigation in this study. The third aspect ('public disclosure') is an important aspect of SEAAR as it shows how transparent and how accountable companies are to their stakeholders. In this study, information disclosure is measured only to a limited degree as the extent of information disclosure on each information category was not measured.

The fourth and fifth aspects ('indicators and benchmarks' and 'continuous improvements') are closely related. Indicators and benchmarks are needed in order to compare performance with past or, even, future expected performance. According to Gonella *et al* (1998: p28), "*social auditing* seeks to develop a comprehensive set of indicators, so that the indicators reflect the value systems of the organisation, stakeholder group and society-at-large". In social auditing, companies find out about these value systems through stakeholder dialogue. At the same time, as these social values change companies need to change their benchmarks and indicators. Companies, therefore, need to have commitment to continuous improvement (i.e. the fifth aspect of SEAAR).

The fourth and fifth aspects are not examined in this study as investigation on both of them would have required extensive research to find out whether companies recognise the values and interests of their different stakeholder group, and whether they have procedures to contemporaneously incorporate the changes in their stakeholders' values into their benchmarks and indicators. The author believes that the investigation on these two aspects would be out of the time limit and scope of this study and itself requires a separate research project.

The following two sub-sections (sections 3.4.1 and 3.4.2) explain why the first two aspects of SEAAR (i.e. 'stakeholder identification' and 'stakeholder dialogue') have been selected to be investigated in this study.

3.4.1 Stakeholder identification

In the author's view, 'Stakeholder identification' can be regarded as one of the fundamental aspects of SEAAR. The inclusion of all stakeholder groups and, subsequently, treating them equally in terms of their information requirements is not practical. Different companies are expected to attach different importance to their stakeholder groups, depending on the significance of the resources their stakeholders have control over their survivals (Ullmann, 1985). For different companies, different stakeholders are expected to place their emphasis on different issues. This becomes more evident in the definition of stakeholders by Gonella *et al* (1998). According to Gonella *et al* (1998), stakeholders are:

> "... those individuals who affect or affected by an organisation and its activities. A stakeholder then has some form of relationship with the organisation, and this relationship is a function of a particular set of dynamics that are exclusive to that organisation and that stakeholder group. No two organisations could have the same set of relationships with the same stakeholders." (p22)

They also add that:

> "Accounting processes must be practical and it is often the case that all stakeholder groups cannot be included at once. Many organisations have developed a staggered approach to stakeholders consultation, disclosing their intentions to include specific stakeholder groups in coming years." (ibid., p23)

In general, companies are expected to identify their stakeholder groups by understanding their values as well as their information requirements. In this study, investigation was carried out to find out whether companies identify their stakeholder groups. Thus, the *fifth supporting research question* is phrased as:

> *"Do companies identify their stakeholder groups and attach different importance to them?"*

As part of stakeholder identification process, companies are expected to be aware of their stakeholders' values, and the only way of achieving this awareness is through establishing a dialogue with them.

3.4.2 Stakeholder Dialogue

Stakeholder dialogue is concerned with interaction between companies and their stakeholder groups. Companies who identify their stakeholder groups are also expected to communicate with their stakeholders and to find out their information requirements. As the nature of the relationships between companies and each of their different stakeholder groups differs, companies are expected to use different means of communication and consultation for each stakeholder groups.

As part of stakeholder dialogue, there is expected to be active two-way communication and consultation as compared to one-way communication. Dialogue, which is an active multi-way process, requires stakeholders' involvement in the communication process in order to express their views and thoughts openly and companies can become fully informed of their stakeholders' varying views and expectations. To this end, the *sixth supporting research question*, is phrased as follows:

> *"Are there any dialogues between companies and their stakeholder groups?"*

In order to be able to examine the *sixth supporting research question*, this study focuses on three aspects of stakeholder dialogue, which are: 'methods of communication', 'information items communicated' and 'two-way communication and consultation'. These three characteristics are extracted from work of Perkins (1987), Farnham (1993) and *Employee Communication and Consultation* (1996)[55]. These three aspects of stakeholder dialogue play significant roles in effective communication. In order to

[55] Most of the existing literature that discusses various aspects of communication focuses on communication with employees (see Appendix 3C). Even though the nature of the relationship between companies and its other stakeholder groups varies, there is some common ground between them. This study mainly uses the literature on employees as its reference point.

achieve effective communication, companies need to use the appropriate communication methods for each stakeholder group so that they can disclose the relevant information. For instance, detailed information about corporate operations is expected to be communicated to employees using written methods.

At the same time, the only way of ensuring that the disclosed information provides stakeholders with the relevant information is when companies hold 'two-way communication and consultation' with stakeholders whereby companies and stakeholders become aware of each other's values, views and expectations. As a result, companies disclose information that is relevant to their stakeholder groups. In the following three sub-sections (sections 3.4.2.1, 3.4.2.2 and 3.4.2.3), discussion is provided to explain why each aspect was considered in this study.

3.4.2.1 Methods of Communication with Stakeholder Groups

Methods of communication play a significant role in providing the parties involved with effective means of communication. Effective communication is characterised with clear, easy and concise understanding of the exchanged information. There are different methods of communication. Depending on the information needs of each stakeholder group, different methods are expected to be used to serve the requirements of each stakeholder group. For instance, written methods are expected to be more popular when communicating with employees as compared to face-to-face methods when communicating with investors. This is because employees are expected to be interested in internal matters, which can sometimes be detailed information, and, therefore, need methods that provide them with such information in a referable form.

In comparison, investors, who are under more time constraint, are not interested in detailed internal matters. Face-to-face methods are, therefore, expected to provide investors with more suitable mediums of information exchange as they provide spontaneous interaction.

Table 3.7 presents three main categories of communication methods, where each category comprises of several methods. The choice of communication methods is significant in providing the stakeholder groups with the appropriate and hence useful information items.

TABLE 3.7 METHODS OF COMMUNICATION

Face-to-face methods
1. Group meetings (Apart from the annual general meeting) 2. Cascade networks 3. Large-scale meetings
Written Methods
1. Company handbooks 2. Information notes to stakeholder representative 3. House journals 4. Newsletters 5. Departmental bulletins 6. Notices 7. Individual letters to stakeholder group representatives (to give information on major importance accurately and simultaneously)
Other Methods
1. Information points 2. Audio-visual aids 3. Electronic mail

Source: Extracted from Perkins (1987), Farnham (1993) and *Employee Communication and Consultation* (1996).

3.4.2.2 Information Items Disclosed to Stakeholder Groups

The disclosure of relevant information is one of the essential aspects of effective communication. This can be examined by considering which information items are disclosed and whether stakeholders found them useful. The degree of usefulness was measured using a 5 point ranking scale (1 for 'Not at all' to 5 for 'Very much so'). The information items disclosed to stakeholder groups are generally divided into two main categories of 'information about the organisation' and 'marketing information' (shown in Table 3.8). While the first category comprises of information items about the organisation, dealing with internal matters of a company, the second category includes information items on matters related to the external environment.

TABLE 3.8 INFORMATION ITEMS DISCLOSED TO STAKEHOLDERS

Information about the organisation
1. Work objectives and performance 2. Operating and technical information 3. Health and safety 4. Information on personnel (Who the key positions are) 5. Working conditions 6. Supervision and management of different operational procedures 7. Administrative procedures 8. Training and development 9. Development in technology and methods 10. Equal opportunities 11. Social and welfare facilities to each stakeholder group
Marketing Information
1. Company Market Share 2. Company Market Segment 3. Mergers and Acquisitions 4. Investment 5. Details of products and services 6. Future plans on developing products and services 7. Future plans on other issues 8. Research and development 9. Environmental issues

Source: Extracted from Farnham (1993) and *Employee Communication and Consultation* (1996).

Companies are expected to disclose different types of information to different stakeholders. For instance, companies are expected to focus on 'marketing information' when communicating with their investors and more on 'organisational' matters when communicating with employees.

3.4.2.3 Two-way communication and Consultation with Stakeholder Groups

Two-way communication and consultation can be regarded as the most important aspect of stakeholder dialogue. In two-way communication and consultation, companies provide their stakeholders with information on organisation and on related marketing issues. At the same time, stakeholders have the opportunity to inform their companies of their interests, expectations and their information needs so that the company can either provide them with the relevant information on the spot and/or to take their stakeholders' views into account, when making decisions. The evidence on participation in two-way communication would reveal if companies had any intention of finding out their stakeholders' information requirements.

There are several methods through which companies can hold two-way communication and consultation with their stakeholders and find out about their expectations, needs and values. These methods are:[56]

1. Dialogue circles,
2. Joint consultation committee,
3. Training programmes,
4. Suggestion schemes, and
5. Attitude surveys.

A dialogue circle, sometimes called quality circles (in the case of employees) or focus groups (in the case of customers or other stakeholder groups), is a group of people within an organisation who meet together on a regular basis to identify, analyse and solve problems on quality, productivity or other aspects of daily working life, using problems solving techniques (see Farnham, 1993). Quality circles or focus groups are

---

[56] The selected methods were extracted from *Consultation and Communication – The 1990 Survey* (1996).

good indicators of the top management's willingness in finding out about stakeholders' interests, expectations and values. Those companies that genuinely consider their stakeholder groups provide them with the opportunity to express their views as well as presenting thèm with information on their operations, products and services. Each dialogue circle consists of representatives of particular stakeholder groups as well as corporate managers.

Another way of interaction between companies and their stakeholders is through joint consultative committees. Joint consultative committees are made up of managers and stakeholder representatives who agree on a set of predetermined rules and procedures to govern the committee's operations[57].

Other alternative methods that can be used by companies are: training programmes, attitude surveys and suggestion schemes. Training programmes are relevant and helpful when companies intend to communicate their values and expectations to their stakeholders (i.e. employees in particular). At the same time, companies offer training programmes to some of their stakeholders to give them appropriate communication skills[58]. Both attitude surveys and suggestion schemes indicate the willingness shown by managers in finding out the interests, expectations and values of their stakeholder groups by providing them with opportunities to communicate their ideas and views freely.

---

[57] They also agree on a number of issues. The most common issues are: (1) size and composition of the committee, (2) organization of committee meetings, (3) subjects to be discussed, (4) facilities for committee members, (4) arrangements for reporting back (Extracted from *Employee Communication and Consultation*, 1996).

[58] For further details see Cowling and James (1994) and *Employee Communications and Consultation* (1996).

As it will be explained in *Chapter 4*, this study investigates the level of stakeholder dialogue between companies and two of their stakeholder groups by trying to find out evidence on all of the 5 different aspects mentioned above.

3.5 CONCLUSION

This chapter presented the second part of this thesis the literature review. While the previous chapter reviewed the theoretical and conceptual literature, this chapter focused on empirical literature in order to explore the two key research questions that were presented in the previous chapter.

The chapter comprised three main sections. In section 3.2, the classification of non-financial information into two groups of governance and non-governance information categories was discussed. It was argued that both groups of governance and non-governance information are fundamentally and closely related aspects, and companies that are socially responsible are expected to have transparent governance structures. Having a sound and a transparent governance structure was regarded as a means of illustrating that a company is legitimate. In section 3.2.1, corporate governance structure and the development of the regulatory requirements were discussed. It was decided to include 13 information categories as governance information in this study. These governance information categories were mostly mentioned in the report by the Cadbury Committee (1992).

Information categories, which were regarded as non-governance information, were discussed in section 3.2.2. As the 10 non-governance information categories selected in this study were not recommended by any regulatory bodies, the literature review of each category was presented in order to justify why it was important to include them in this study.

The relevant empirical literature on the first key research question was reviewed in sections 3.3.1 to 3.3.4. Each of these four sections presented a review of the relevant literature on one corporate characteristic and focused on whether there was any evidence of the associations between the level of non-financial information disclosure and any of the four characteristics. The literature review revealed that most of the previous studies have focused on the social and environmental activities of companies. No previous study was found to consider the information disclosure on corporate governance structures of companies. The findings of many studies that have examined the association between social/environmental disclosure/activities and either of the three characteristics (i.e. industrial affiliation, size and performance) were presented in tabular format. Based on these findings, expectations were formed of the association between non-financial information disclosure and each corporate characteristic. For instance, companies in certain industries were argued to be under more pressure to disclose more non-financial information than companies in other industries. Similar expectations were formed in the case of size (i.e. larger companies were expected to disclose more non-financial information than smaller companies).

In the case of corporate growth (discussed in section 3.3.3), little empirical evidence was found in the existing accounting literature. The third supporting research question focused on whether there was any association between corporate growth rate and the attempt of non-financial information disclosed.

In the case of corporate performance (discussed in section 3.3.4), one research question was posed. This was despite the fact that the literature review presented several aspects to corporate performance. Based on the literature related to each aspect, expectations were formed. For instance, it was argued that companies with high gearing (i.e. risky companies), higher profitability and higher liquidity were expected to disclose more non-governance information to project a more socially responsible image. Hence they could have lower implicit costs and easier access to capital.

Section 3.3 presented four supporting research questions that would make the investigation of the first key research question possible.

In section 3.4, the literature relevant to the second key research question was reviewed. The second key research question was concerned with whether companies paid any attention to the quality of non-financial information thereby met the information requirements of their stakeholder groups. Two supporting research questions 5 and 6 were presented. Question 5 was concerned with whether companies identified their stakeholder groups' whereas question 6 focused on investigating whether there was any stakeholder dialogue between companies and their stakeholder groups.

The two supporting research questions 5 and 6 were based on two of the common aspects of SEAAR, namely 'stakeholder identification' and 'stakeholder dialogue'. It was discussed that the presence of stakeholders' dialogue would indicate that companies would seek to find out their stakeholder expectations and value systems. In this way, companies would be in a position to disclose non-financial information that was of interest to their stakeholder groups. In order to be able to assess stakeholder dialogue, three aspects were discussed. These three aspects were: 'methods of communication', 'information items disclosed to each stakeholder group' and 'two-way communication and consultation'.

CHAPTER 4 METHODOLOGICAL ISSUES

4.1 INTRODUCTION

Even though many researchers debate the merits of different schools of research methodology, what many authors do not debate is the vital importance of methodology in producing valid and reliable outcomes from research. One of the main objectives of this chapter is to present the decisions taken for this research project in respect of the methodology employed and to make a case for the validity and reliability of that chosen methodology. Issues related to the methodology selected for this research project is discussed in section 4.2 only. In sections 4.3 to 4.9, the methods that have been selected for this project are presented. A brief summary of different sections of this chapter is provided in section 4.10.

In section 4.2, standard research concepts, which are commonly used by social science researchers, are presented to explore two main schools of positivism and phenomenology along with the key methods of exploration, data collection and analysis associated with each school. In section 4.2.4, the reasons are presented why one school is more suited to serving the purpose of this research project.

The chapter is continued by discussing different research methods that are used in different stages of the research project. In section 4.3, content analysis and survey methods are discussed as the two main methods of data collection used in this study. The process of the selection of data sources is discussed in section 4.4. Before being able to proceed with this project, the author carried out an examination of the level of non-financial information disclosed by the major UK companies in their annual reports. The evidence for this investigation is presented in section 4.5. In sections 4.6 and 4.7, methods of data analysis and the design of questionnaire are presented and explained. Financial and non-financial characteristics of respondents and non-respondents and the possibility of any associations between these characteristics and the decision to respond to the survey are analysed and presented in sections 4.8 and 4.9, respectively. The chapter is concluded in section 4.10.

4.2 STANDARD RESEARCH CONCEPTS

There are different forms of research in the business environment. Jankowicz notes three types: pure research, consultancy and applied research (Jankowicz, 1995: p92). The variation between these differing types stems from the differing ends that the research is intended to address, within the context of the environment. In the business environment, the impact on the environment can be identified as the provision of solutions to real business problems. Pure research is intended to have no immediate practical application. It is undertaken to increase the fund of academic knowledge, and is theory based. Consultancy, on the other hand, is only concerned with practical application, in this case providing a solution to a managerial problem. Applied research represents a combined approach, where academic investigation provides solutions to specific problems.

As far as the nature of research is concerned, the consensus is that it must be about the solution of problems, whatever their origin, and for whatever their ultimate purpose. Pure research will aim to build, test or disprove theory. Consultancy will seek to find a solution to a particular managerial problem. Applied research will take an academic theory based approach to resolving a practical problem. This project is intended to be located in the area of applied research, as it is hoped that the eventual outcomes will provide valuable insights into why companies disclose non-financial information.

Research in the social sciences is often overshadowed by a debate on the inherent validity of competing methodological approaches. The main focus of this debate is on the extent to which social science research can achieve its validity by the application of the 'scientific method'. There is a general consensus within the literature that "good research uses the scientific method" (Cooper and Emory, 1995: p12), or hypothetico-deductive methods (Jankowicz, 1995) as the concept is sometimes described. According to Gill and Johnson (1991: p32), consideration of the scientific method or hypothetico-deductive reasoning implies an acceptance, shared with the natural sciences, that what is important in research is not the source of theories and hypothesis, but the process by which these ideas are tested and verified. The debate within the social research arena is how best, or indeed whether it is possible, to successfully to apply the scientific approach to social research.

The competing schools, primarily positivism and phenomenology (Gill and Johnson, 1991; and Easterby-Smith, Thorpe and Lowe, 1991)[59], argue for the validity of one approach and often for the invalidity of the other, based upon the ability of either approach to achieve scientific methods of investigation and analysis. Some authors have argued that each approach is quite different from the other, generating different concepts and using different tools (Burrell and Morgan, 1979) and so are not in competition. Other authors, such as May (1997), have argued for the validity of either approach in the appropriate circumstances and providing that rigour in methodological terms is achieved.

---

[59] Other schools of thought have developed within the literature: realism, subjectivity, idealism and Post-modernism. A decision was taken not to review these competing schools of thought as their relevance to tile research in question was not thought to be significant.

This debate is explored in this section in order to facilitate an appropriate choice of research methodology for this thesis. Both positivism and phenomenology will be explored, in terms of their guiding philosophy, principal methods of exploration and analysis, and their appropriate research contexts. In addition, the relationship between both positivism and phenomenology and deductive and inductive approaches to research will be discussed.

4.2.1 Positivism

The underlying philosophy of the positivist is that social scientists must seek to divorce themselves as much as possible from the views of the people in society[60], and hence study social phenomena "in the same state of mind as the physicist, chemist or physiologist when he probes into a still unexplored region of the scientific domain" (Durkheim, 1964: pxiv as quoted in May, 1997: p10). In short, therefore, a positivist or behaviourist approach seeks to adopt a scientific detachment, free from the distorting potential of opinion and bias, in order to achieve "the prediction and explanation of the behaviour of phenomena and the pursuit of objectivity" (May, 1997: p10). Such an approach would therefore share the same aims as the natural scientist.

Gill and Johnson (1991) argue that the two most significant characteristics of a positivist approach are that:

- research should concern itself with "only directly observable phenomena, with any reference to the intangible or subjective being excluded as being meaningless" (Gill and Johnson, 1991: p132); and

[60] In business research this would equate to industry.

- research should seek "the testing of theories, in a hypothetico-deductive fashion, by their confrontation with the facts of a readily observable in external world" (Gill and Johnson, 1991: p132).

Johnson (1983) provides a succinct explanation of the rationale for the positivist approach when he argues that "human behaviour is subject to the operation of laws of cause and effect, and the nature of these laws can be identified by the process of hypothesis-testing against empirical evidence" (Johnson, 1983).

The outcomes of a positivist approach, therefore, seek to produce sets of covering laws, in the same fashion as do the natural sciences. These covering laws describe, on the basis of observed phenomena, expected behavioural characteristics, which may be applied to the whole of society/industry. It is an approach which seeks to understand causality within society, on the basis of generalizable behaviour, but without direct reference to the opinions of actors within society. This approach has been associated with more quantitative research driven by surveys, experimentation, and content analysis, rather than more qualitative, opinion based research (Sapsford and Jupp, 1996). Saunders, Lewis and Thornhill (1997) identify the steps necessary in an hypothetico-deductive approach as including:

- deducing the hypothesis from the theory;
- expressing the hypothesis in operational terms;
- testing the operational hypothesis;
- examining the outcome; and
- modifying the theory in the light of the outcome, if necessary (Saunders *et al,* 1997: p71).

This approach will inevitably be highly structured.

The concept of empiricism is closely related to the concept of positivism. It is generally accepted that empiricism is separated from positivism by each school's perspective on the issue of theory. As can be seen from the above discussion, in a positivist approach data is collected with the intention of either defending or falsifying a theory. Empiricism, on the other hand "refers to a conception of social research involving the production of accurate data -meticulous, precise, generalizable - in which the data themselves constitute an end for the research" (Bulmer, 1982; as quoted in May, 1997: p11). In short, the view of the empiricist school is that data generated by research is an end in itself "and requires no explanation via theoretical propositions" (May, 1997: p11). Despite this, the school shares many similarities with a positive approach, not least the view that "there is a world out there that we can record and we can analyse independently of people's interpretations of it" (May, 1997: p11).

4.2.1.1 Chosen Methods of Exploration

The previous section referred to the tendency for positivist (or empiricist) approach to rely upon quantitative methods. There are various methods of data collection among which documentary research, interview and surveys can be regarded as the most common methods to be mentioned in the literature. The extent to which each method is related to the positivist tradition is determined by (a) the extent to which the approach can be divorced from subjectivity on the part of the respondent/observer and (b) the extent to which the collected data can be analysed by quantitative methods.

One of the major quantitative approaches associated with a positive view is content analysis. This approach does not seek to survey organisations or people operating in the field, but predominantly seeks to quantitatively analyse large quantities of secondary textual data, e.g. annual reports (Beardsworth, 1980). As it will be shown, the analysis of the content of annual reports is a significant feature of this research and so the subject will be addressed in section 4.3.1.

Of the different methods of data collection, the approach most frequently associated with a positivist view is that of the survey. In other branches of social science research other positivist methods are successfully employed. For instance, in psychology where laboratory experiments are frequently used, surveys are often seen as a way by which statistical evidence can be collected to confirm, or falsify, a theory. Subject to the appropriate measures to ensure standardisation, replicability, validity and representativeness, surveys can provide data about which generalisation can be made in respect of the behavioural characteristics of a specific sample of people, companies and so on. Surveys, which are replicated and found to provide similar findings, increase the confidence that can be placed upon the validity of results and hence the confidence that can be placed upon the confirmation of the theory. Surveys are often associated with a positivist philosophy as they provide the means of gathering data which allow the researcher to remain detached from their subjects, but which allows for the creation of generalizable rules. They are seen to utilise a methodology with "logical similarities to that used by physical scientists" (May, 1997: p83). Ferber, Sheatsley, Turner and Wakesberg (1980) identified a key attribute of a survey as a method of gathering information, from a sample of some description, to gain insight into the larger population from which the sample was drawn. Surveys are forms of data collection, as well as methods of analysis (De Vaus, 1996).

Surveys provide a researcher with an approach where data collection is relatively straightforward, theoretically grounded, providing the appropriate procedures have been followed in the construction of the research instrument, and easily replicable, aiding the process of verification and strengthening the reliability of the outcomes. This approach does, however, have a number of inherent weaknesses, which may actively restrict the option of using the approach in certain contexts. The principal objection to a survey approach is that it attempts to show a causal relationship between sets of variables, when the reality of social interaction is not based upon causality (May, 1997: p104). It is argued in certain sections of the literature that the correlation of variables does not imply that one has caused the other, just that there may be an association. The tendency of the survey approach is to suggest a relationship between variables that does not in reality exist, and by seeking to understand relationships statistically, a researcher may overlook the true significance of their findings (May, 1997: p104).

May (1997) notes that another associated criticism of the survey approach is that it "rules out the possibility of understanding the process by which people come to adopt particular values or behaviours" (p104). It is possible for researchers to ground their survey in theory, and so overcome this criticism, but the literature continues to perceive that this is still a common feature of the use of questionnaires. Another related concern is that the bias of the surveyor will become apparent within the construction of the survey. Bias in question formulation will lead inevitably to the outcomes that the researcher is seeking, and hence undermines the validity of the process undertaken. Surveys also tend to be 'snap-shots' of opinion at a particular time, unless they are undertaken longitudinally (May, 1997: p105).

The underlying concern with the use of survey method is therefore that of validity. Without interaction with the participant, a number of questions are posed. How is the researcher to be sure that the respondent has understood the question? How is the researcher to know the respondent has answered the questions truthfully? How is the researcher to know that the respondent has access to the data required, and is in a position to speak for their organisation authoritatively? How is the researcher to know that what the respondent says that they do, they do in reality? (Jankowicz, 1995: p184; and Cooper and Emory, 1995: p269). Surveys, driven as they are by the needs of quantitative analysis, will tend towards reducing potentially complex problems to a series of limited responses, which arguably reduces the quality and breadth of the potential responses. Hence, reliability is a key issue, although as Gill and Johnson note, reliability is no guarantee of validity (Gill and Johnson, 1991: p88). In this study, survey is used to collect evidence on the status of stakeholder dialogue between companies and their stakeholder group. Different methods of survey will be discussed later on in this chapter.

4.2.1.2 Methods of Analysis

Clearly, as indicated in the previous sections, positivist approach is most closely associated with quantitative methods of analysis. Quantitative methods are usually associated with the use of descriptive statistics, so that cause and effect can be assessed. A first stage therefore is description, as De Vaus (1996: p24) notes, "unless we have described something accurately and thoroughly, attempts to explain it will be misplaced". A wide range of techniques can be applied in descriptive analysis, from simple reporting of mean scores, to significance testing using tests such as chi-square. The aim of this stage of a quantitative analysis is to prepare the data prior to its testing in relation to the underlying hypotheses.

The objective of hypothesis testing through quantitative approaches is to prove causal relationships through the application of rigorous and verifiable statistical techniques.

Quantitative approaches are of particular importance in areas of study requiring an understanding of the behaviour of large sample populations, and the testing of the relationship between variables through the use of statistical analysis.

4.2.2 Phenomenology

The opposite position to the positivist philosophy has been described as an interpretative or phenomenologist approach. This approach seeks to interpret social phenomena in terms of the relationship between actor and act. In a phenomenological approach, there is no attempt to separate out the effect that the human actor has upon observable actions, to account for the possibly illogical underpinnings of decisions, and the possible "structural inequalities in society/industry" (Sapsford and Jupp, 1996: p304), which can affect the decisions taken. Generally, this school holds that a positivist approach (e.g. clinical, scientific, and seeking to downplay the effects of the human) seeks explanation rather than understanding, and hence produces a situation which limits research, and reduces the outcomes of research. Research that is interpretative will, it is argued, more accurately reflect what is happening, and hence contribute to the creation of responses, which more accurately reflect reality, than a positivist approach.

Phenomenological approaches have tended to be associated with more qualitative methods of exploration, and hence with more exploratory research (Cooper and Emory, 1995: p118). An implication of the existing definition (Creswell, 1994: pp12-15; and Hussey and Hussey, 1997: pp 66-67) is that phenomenological approaches are useful for the generation of research questions, especially the case when inductive research is being undertaken, or for establishing rough propositions for development into more definite hypotheses, which would then be tested more scientifically.

4.2.2.1 Methods of Exploration

In much the same way that certain methods of data collection are associated with positivist/quantitative approaches, certain methods of data collection are associated with phenomenological/qualitative approaches. The fact that amongst a variety of approaches in social sciences[61] no one dominant approach has emerged is the major reason for concern. The use of case studies most frequently characterises a qualitative approach, either in conjunction with in-depth interviewing or techniques like participant observation.

The value of utilising a case based approach in social science research is increasingly being argued by a number of social science researchers (Yin, 1994; Hamel, 1992; and Perry and Kraemer, 1986). Increasingly, case studies are perceived as providing a degree of detail, and an opportunity to understand complex social phenomena that other research methods fail to achieve (Yin, 1994). There are, however, limitations for a case based approach.

Firstly, it is necessary to assess the occasions in social research when a case based approach may be considered appropriate, and to explain the characteristics of these occasions. Yin (1994) argues against the generally accepted viewpoint that "various research strategies should be arrayed hierarchically" (p3). In such an arrangement the only role that a case approach would perform would be that of the initial exploratory phase of a research project, to be followed subsequently by more scientifically rigorous approaches, such as surveys or experiments. Yin argues that all approaches have applications in all phases of research, whether that stage is exploratory, descriptive or

[61] Case studies, in-depth interviews, surveys, quasi-experimental and action research (Rapoport, 1970: p499), participant observation (May, 1997) are all examples of approaches predominantly used in social

explanatory, and cites his own research as evidence (Yin, 1981a; and Yin, 1981b). The key issues, in Yin's view, is that the appropriate strategies are applied to research project and that "gross misfits" of strategy and project are avoided (Yin, 1994: p4). According to Yin (1994) selecting an appropriate research approach involves three key factors for the business researcher to consider. These are:

- the type of research question posed;
- the extent of control an investigator has over actual behavioural events; and
- the degree of focus on contemporary as opposed to historical events.

Secondly, there are concerns about the replicability and generalizability of case based research, and the question of external and internal verification. It is generally held that these are valid concerns in relation to case based approaches, but again, these are concerns which could be applied to other research approaches.

Thirdly, Yin (1994) notes a general concern that a case based approach results in an over long research process, and produces documents that are themselves generally over long, and therefore ineffective. As Yin notes, such a criticism may be appropriate, or it may not (Yin, 1994: p10). This depends upon the method of data collection applied in the case. If the case is based upon lengthy data collection procedures, such as participant-observation, then the preparation of the case may take a long time, and run to many pages. Conversely, if another method is chosen, such as the use of a telephone, or a series of in-depth interviews, the data collection can both be undertaken more concisely, and can also be focused upon achieving specific objectives.

---

sciences.

Other writers have identified further potential problems with the use of a case approach. Moser and Kalton (1983) recognise three more issues. The first of these is accessibility and the question of whether the interviewees had access to "the information that the interviewer seeks". The interview framework utilised took into account the potential for interviewees to refuse to answer questions due to a concern for commercial confidence. Additionally, Moser and Kalton (1983) identified the question of interviewee cognition. Did the person to be questioned possess an understanding of what was required of him or her in the role of the interviewee. Moser and Kalton also identified the question of motivation, where the interviewer must make the interviewee feel that their participation and answers are valued.

4.2.3 Deductive and Inductive Approaches

In making a decision as to whether to adopt a deductive or an inductive approach in a research project, the researcher must know the precise starting point of the investigation, as the 'logical ordering' of each approach is the opposite of the other (Gill and Johnson, 1991). A deductive approach "entails the development of a conceptual and theoretical structure prior to its testing through empirical observation" (Gill and Johnson, 1991: p28) while an inductive approach "involves moving from the 'plane' of observation of the empirical world to the construction of explanations and theories about what has been observed" (Gill and Johnson, 1991: p33).

Deduction is identified as a process whereby a relationship is established between reasons and conclusions, where through the research process reasons will be found to imply the conclusion, and can therefore be seen to represent a proof (Cooper and Emory, 1995: p26). This approach requires empirical testing, as for the approach to succeed it must be shown to be "both true and valid" (Cooper and Emory, 1995: p26) in order to show that the conclusions reached necessarily follow from the premises, or reasons, established at the outset. In deduction, theory forming comes before research.

Induction is identified as a process where the relationship between reason and conclusion is not as strong. As Cooper and Emory (1995) note, "to induce is to draw a conclusion from one or more particular facts or pieces of evidence" (p27), where your conclusion will explain the facts available, while the facts available will support the conclusion. However, it is in the nature of an inductive approach that there may be a variety of possible conclusions. Hence any conclusion arrived at is by necessity viewed as a hypothesis, which needs to be tested empirically. In an inductive approach conclusions are inferred, until they are substantiated, and "the task of research is largely to determine the nature of the evidence needed and to design methods by which to discover and measure this other evidence" (Cooper and Emory, 1995: p28).

As the preceding section shows, there would appear to be a close relationship between deduction and positivist, quantitative research, and between induction and phenomenological, qualitative research. The importance of theory, and empirical analysis links deduction and quantitative approaches, while the search for theory appears to link induction and qualitative approaches. The question would inevitably come down to a choice of the appropriate method of exploration being selected to address the research question to be resolved.

4.2.4 Approach Chosen for This Research

Following the discussions in the previous sections, the author believes that it is necessary to clarify the research methodology that has been adopted in this thesis. The important points related to the methodological issues of this research project are stated below:

- This research is *applied research* as it is intended to elevate our understanding of the level of non-financial information disclosure using the data gathered from a sample of the major UK companies. In this thesis empirical evidence is used to find answers to specific questions.
- This research has adopted a *deductive* approach where research questions are developed based on the existing relevant concepts and theories. In this study, the research questions were posed so that they would possess what Kerlinger (1986) regards as the characteristics of good research questions. According to Kerlinger (1986), "good research questions for a positivistic approach study should: (a) express a relationship between variables, (b) be stated in unambiguous terms in question form, and (c) imply the possibility of empirical testing (as quoted in Hussey and Hussey, 1997: p126). For these reasons, the research questions posed in this study were designed to empirically investigate the issues of concern. In doing so, some research questions (i.e. questions 1-4) were statistically tested while basic statistics were used to answer others (i.e. questions 5-6).
- The research methodology is located within the field of *positivism* as it relies on empirical evidence rather than the opinions of individuals or groups in society to explain why companies disclose non-financial information. This study uses the empirical evidence obtained from statistical testing to offer explanation for companies' behaviours.
- The study employs quantitative methods of data collection. As will be discussed later in the Chapter, content analysis was used to quantify the disclosure of non-

financial information. In addition, surveys were used to collect data on the existing level of dialogue between companies and their two stakeholders groups.

4.3 CHOICE OF DATA COLLECTION TECHNIQUES

Research data may be collected in various ways. Some of these methods depend on the methodology and the theoretical assumptions used in the research. The author chose to use content analysis and questionnaires as they were the most suitable data gathering techniques. While content analysis is used to find empirical evidence that would be used to illustrate if certain corporate characteristics explained the disclosure of non-financial information (i.e. the first key research question), questionnaires were designed to gather empirical evidence on the state of stakeholder dialogue among UK companies (i.e. second key research question). A description of each technique is given in the following sections.

4.3.1 Content Analysis

Content analysis can be defined as "... a technique that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity" (Abbott and Monsen 1979: p504). The concept of content analysis is based upon the need for an approach which allows large quantities of textual data resources to be analysed and verified scientifically and so produce "hard, objective data" (Beardsworth, 1980: p372). These large quantities of textual data resources are regarded as "a very convenient and easily handled source of raw material for the analyst" (Beardsworth, 1980: p372). It is the scientific verification that eliminates subjectivity from this data collection process and makes it mainly associated with a positivistic approach (Hussey and Hussey, 1997: p250) even though it is argued by some researchers to be a technique used for analysing qualitative data (Easterby-Smith *et al*, 1991).

One definition available in the literature is that proposed by Budd, Thorp and Donohew (1967), which states that "content analysis is a systematic technique for analysing message content and message handling - it is a tool for observing and analysing the overt communication behaviour of selected communicators" (p2). Holsti (1969) adopts a wider perspective, identifying the concept as being " ... any technique for making inferences by objectively and systematically identifying specified characteristics of messages" (p14). As Beardsworth (1980: p374) notes, the key to this latter definition is its core characteristics which are its objectivity, systematic approach and generality. Using content analysis, he argues, involves explicitly formulated rules and procedures. He further notes that there is an assumption that the outcomes of content analysis will be analysed using statistical methods. Silverman (1993: p9) identifies this aspect of content analysis as placing the technique in the quantitative/positivist school and sees it as an attempt to provide a scientific means of analysing data that could otherwise only be analysed subjectively.

Content analysis can have different applications. Hence, the researcher needs to select the application that suits the nature of his/her research project. According to Nachmias and Nachmias (1996) there are three general applications of content analysis. The first application of content analysis, which is widely used, "... is most frequently applied in describing the attributes of the message" (Nachmias and Nachmias, 1996: p325). Here the researcher analyses a message by testing hypotheses about characteristics of the text. The second application is concerned with questions such as 'who says what and why and to whom' "... in order to make inferences about the sender of the message and about its causes or antecedents" (Nachmias and Nachmias, 1996: p326). The third application of content analysis is when "... researchers make inferences about the effects of messages on recipient. The researcher determines the effects of A's messages on B by analysing the content of B's messages" (Nachmias and Nachmias, 1996: p326).

In this study, the first application is not relevant as the study does not test hypotheses about the characteristics of the text. The third application is not relevant either as the study does not determine the effects of a message on the recipient. This study uses content analysis in order to gather empirical evidence on the level of non-financial information disclosed by the major UK companies. The level of non-financial information will subsequently be used in the analysis that is expected to provide answers to the question of why companies decide to disclose non-financial information. Hence, the second application of content analysis is relevant to this study.

An important issue when deciding to use content analysis is the reliability of the final outcomes, or what is sometimes called coded data. Krippenorff (1980: p130-154 as quoted in Weber, 1990: p17) identifies three types of reliability: stability, reproducibility and accuracy. As Weber (1990) argues *stability* is obtained when "... the same content is coded more than once by the same coder" (p17) and any observed inconsistencies in coding constitutes unreliability. *Reproducibility*, on the other hand, is obtained if the same results are observed when different coders codify the same text. Accuracy, which is the strongest form of reliability, "... refers to the extent to which the classification of text corresponds to a standard or norm" (Weber, 1990: p17). Many researchers do not assess this form of reliability, as Weber (1990) points out.

Before discussing how the reliability of codification was ensured in this research project, the author believes it to be necessary to discuss the coding units. There are different units of measurement from which researchers are expected to select the appropriate coding unit. A summary of the most commonly used units is shown in Table 4.1.

TABLE 4.1 EXAMPLES OF CODING UNITS

Coding Unit	Example
Word/phrases/ terms	According to Nachmias and Nachmias (1996: p327) "when the recording unit is a word, the analysis yields a list of frequencies of these words or terms". Words/phrases/terms can be used to "examine minutes of company /union meetings for the word 'dispute' ... or to examine circulars to shareholders for the words 'increased dividends' " (Hussey and Hussey 1996:p251).
Theme	"A theme is a simple sentence, that is, a subject and a predicate" (Nachmias and Nachmias, 1996: p327). For instance, when the researcher examines either the "... minutes of company/union meetings for occasions where discussions lead to agreements" or the "... circular to shareholders ... where increases in productivity are linked to increased profits" (Hussey and Hussey 1996:p251).
Item	"The item is the whole unit the producer of a message employs" (Nachmias and Nachmias, 1996: p328). For instance, when the researcher examines "...newspapers for whole articles dealing with redundancies" or "... company annual reports for entire pieces on environmental issues" (Hussey and Hussey, 1997: p251).
Time	Here the recording unit used is "... the time allocated in broadcast news bulletins to industrial issues (Hussey and Hussey, 1997: p251).
Character	When the recording unit is a character, "the researcher counts the number of persons appearing in the test rather than the number of words or themes" (Nachmias and Nachmias, 1996: p327).
Paragraph	Paragraph as a measure of "... is infrequently used ... because of its complexity. Coders have the difficulty in classifying and coding the numerous and varied elements covered in a single paragraph" (Nachmias and Nachmias, 1996: p327).

As far as the issue of reliability of the outcome is concerned, the arguments by Weber (1990) highlight two factors: the clarity, or lack of complexity, of the coding unit, and the reliability of the researcher who is responsible to carry out the codification. Selection of the unit of analysis is significant as it determines the reliability of the results. As Weber (1980: p17) argues, in all the three cases of reliability, discrepancies could be as a result of ambiguity in the choice of definition of coding unit or coding rules. Most studies use one word or a combination of words, sentences or pages as the unit of analysis. Counting number of words or pages can be problematic as there can be considerable differences in writing styles, margin sizes and sizes of graphics (Milne and Adler, 1999).

According to Milne and Adler (1999) once the coding units are well defined with little ambiguity, the overall reliability of coded data increases and the whole process can be carried out by a single coder who has had the relevant training on a pilot sample. The author shares the same view as Milne and Adler (1999) and believes that the reliability of coded data becomes more of an issue when each coding unit (in the case of this study each information category) has a number of sub-categories. For this reason, as was shown in *Chapter 3*, the information categories are kept simple without having any subcategories. The second common problem in obtaining reliability for the coded data is related to how well trained the coders are and the level of agreement between them. In this study, there was only one coder (i.e. the author) who carried out the content analysis. The author conducted the content analysis three times to ensure that similar outcomes were obtained. The comparison of the three sets of coded data revealed that there were not significant variations between the three sets.

The most reliable coded data is produced by the simplest form of content analysis, which was carried out by Ernst and Ernst (1978) and is commonly known as 'indexing' (Milne and Adler, 1999). Under this form of content analysis, at least one information item needs to be disclosed under each information category. A score of "1" is assigned to each information category for every information item disclosed by companies. If no information item is disclosed for an information category a score of "0" is assigned. The total score gained by each company is, therefore, a percentage number of the information categories that companies had disclosed.

One of the shortcomings of indexing is that the researcher is not able to measure the extent of information disclosure and therefore can not provide any indication of the importance companies attached to each information item (Zéghal and Ahmed, 1990; Gray *et al*, 1995b). At the same time, one of the advantages of indexing is that it can be used when there is no obvious weighting procedures available in which case equal weights are assigned to each information category. This form of content analysis has been used by many researchers in accounting (Cooke, 1989, 1991, 1992, 1993; Hossain *et al*, 1994; Raffournier, 1995; and Wallace and Naser, 1995).

Indexing was chosen for the purpose of this study for its simplicity and hence the reliability of its outcomes. As the reliability of the selected technique was important, 'indexing' was the appropriate technique for this study. Another reason for the suitability of indexing is that this study does not intend to measure the extent of information disclosure and therefore the coded data is not required to reflect the emphasis that companies make on each information category. As far as this study is concerned, one of the weaknesses of indexing is its failure to include all the non-financial information items disclosed by UK companies. The diversity of non-financial information categories disclosed by public limited companies is so wide that their inclusion would be a long process. For instance, in this study most of the non-financial information categories that were disclosed by the Top 100 UK companies were selected.

The author would like to point out that the disclosure of some non-financial information is non-mandatory while others are compulsory and required by the statute (e.g. some environmental issues, equal opportunity issues, health and safety matters and etc). In this study, the non-financial index (or indices – see sections 3.2.1.and 3.2.2) does not distinguish between the two. In addition, public limited companies do not necessarily disclose all the available non-financial information (Wiseman, 1982). Despite these caveats the indices are expected to pick up many of the changes that took place in the disclosure of non-financial information over the period under investigation.

Another relevant point to consider is the use of graphics and pictures by companies in capturing the attention of certain stakeholder groups. Unerman (2000) refers to the importance of graphics and pictures and argues that "... photographs are sometimes a more powerful tool in CSR[62] than narrative disclosures for stakeholders who do not have either the time nor the inclination to read every word in the annual report and just flick through it, looking at the pictures and possibly reading the chairman's statement" (p675). Even though the author agrees with Unerman, she believes that the quantification of graphics and pictures can be highly subjective depending on how powerful the graphics or pictures are perceived to be in conveying certain messages. In essence, the author believes that by the selection of phrases in this study the subjectivity related to the quantification of graphics and pictures will be avoided. The author also takes the view that the inclusion and, subsequently, the quantification of graphics and pictures could be regarded as measuring the extent of disclosure.

Although content analysis has been commonly used in the areas of social and environmental reporting (Ernst and Ernst, 1978; Abbot and Monsen, 1979; Guthrie and Parker, 1990; Zéghal and Ahmed, 1990; Gray, Kouhy and Lavers, 1995b; Hackstone and Milne, 1996; Tilt, 1998; and Milne and Adler, 1999) for the quantification of social and environmental information, the author sees it as necessary to explicitly state why

---

[62] CSR stands for corporate social responsibility.

content analysis was selected in this study and the measures that were taken to ensure the quality of coded data. The reasons for the selection of content analysis are:

- This research project presents the level of information disclosed by the major UK companies in their annual reports for three years. Indexing, which is the simplest form of content analysis, was chosen as it could be used to measure the level of disclosure without attaching different weights to different information categories.
- This study has adopted a positivist/quantitative approach. As the preceding discussion illustrates, content analysis is also used in positivist/quantitative approaches.

4.3.2 Survey Methods

4.3.2.1 Questionnaires

Questionnaires have, according to Sharp and Howard (1996: p145), "over the past century, become a common method of gathering information." Questionnaires can be defined as "a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives" (Sekaran, 2000: p233). In the US the term "survey" is used for this data collection method (Nachmias and Nachmias, 1996: p224). Creswell (1994) states that a survey design, through the data collection process of asking questions, provides a quantitative or numeric description of some fraction of the population (i.e. a sample, which can be in turn generalised to the population from which the sample was drawn).

In general, questionnaires can be divided into perceptional and factual questionnaires. Perception questions ask questions concerning the feelings, thoughts, knowledge and opinion of participants, which are quite subjective. Factual questions ask questions of fact. Even in perception questionnaire, there is usually a 'personal details' section, which is factual. Questionnaires can also be categorised by the method of delivery (i.e. Postal Questionnaire, Personally Administered Questionnaire and telephone and its recent extension – e-mailed questionnaires). In the author's opinion, the main advantages of these methods are structure and timeliness.

Although questionnaires can be both open ended or closed ended, both types provide structure to the process of data collection, the closed ended one being more specific and less prone to interpretation than the open ended questionnaire. As compared to participant or process observation, where only general points can be watched for, the questionnaire structures the data and makes it easier for later analysis especially when nominal or ordinal scales are used to capture data. These can be used in computerised statistical analysis, which makes the research more robust and rigorous.

The timeliness of data gathering is another feature especially of postal or telephone questionnaire surveys. Controlling for the response rate, more data can be collected in a shorter period of time by using questionnaires than by interviewing sequentially or observing over long periods of time.

Sections (a) and (b) discuss postal and personally administered questionnaires.

a) Postal Questionnaires

In this process, the questionnaires are mailed to the sample participants, usually with a pre-paid self-addressed envelope to encourage response. This enables a larger sample to be obtained in a short space of time. Although in theory the researcher could employ a large number of interviewers to administer questionnaires, this is a costly affair and is not practical for a PhD project. In terms of reliability, posting questionnaires avoid accusations of incorporating researcher bias.

Another advantage is greater anonymity due to the absence of the interviewer, especially when sensitive questions are asked (e.g. ethical practices). "People in the sample are more likely to respond to sensitive questions when they do not have to face an interviewer or speak to someone directly" (Sekaran, 1992: p225). In this particular research project, the identities of the companies and stakeholder groups to whom the questionnaires were posted were kept confidential as anonymity was important for many participants in this research.

The negative side to postal questionnaires is that the response rate is usually small, which requires a second or even a third mailing. The ever increasing number of research and posting of junk mail means that many questionnaires end up straight in the dustbin. A further more important disadvantage of this method is that different participants may interpret the questions differently and certain questions can be completely misunderstood by many or all participants. To avoid this problem questions would have to be simple. In this research project the questions were to be kept as simple as possible, and participants only needed to tick boxes rather than express their views or perceptions. This was compatible with the methodology approach adopted in this study. This approach is compatible with the positivist approach adopted by this study.

b) Personally Administered Questionnaires

Here the researcher personally administers the questionnaire to the participants, usually at the participants' workplace or residence. This has the advantage of a faster response, as the researcher and his/her team can get the questionnaires completed quickly as compared to the postal method, where the participant might postpone completing and returning the questionnaire. This method is especially suitable in a survey confined to a local area where the researcher can get the participants and/or his/her organisation to co-operate to allow the researcher access.

Advantages of this method include: (i) doubts regarding the meaning of the questions can be clarified to ensure that the participant is answering the questions in the sense that the researcher intended, (ii) the importance of the research can be personally presented to the participants and its significance explained to them to motivate honest answers by emphasising their contribution to the research, (iii) it requires fewer skills than interviewing, and therefore, relatively low skilled assistants can be recruited to perform this task to speed up the research, and (iv) it ensures better response rates because there is a 'personal face' to the questionnaires as personal persuasion usually increases interest.

The main disadvantage seems to be that the researcher may introduce his/her personal bias by giving facial or verbal expressions, which may make the participant uneasy. Furthermore, explaining questions differently to different people, participants may be in fact answering different questions as compared to those whom the questionnaire was mailed to. In this study, interviews were not selected as the most appropriate of survey method. As it will be explained later it was not possible to gain access to different individuals/managers representing companies or stakeholder groups.

4.3.2.2 Interviews

Nachmias and Nachmias (1996) define an interview as a "face-to-face, interpersonal role situation in which an interviewer asks participants questions designed to elicit answers pertinent to the research hypotheses" (p 232). However, in Sekaran's (2000) view interviews need not be face to face as it can be conducted through the telephone or can even be computer assisted.

Interviews can be classified as *structured* or *unstructured* (or non-directive interview) although Nachmias and Nachmias (1996) identifies a third category - *the focused interview*, which is a variation of the structured interview. In the structured interview, the format is more rigid and assumes that the researcher knows exactly what information is needed and has a list of pre-determined questions she/he intends to ask of the participants. The same questions are administered to every interviewee, although in certain cases depending on the circumstances or participants' answers, the researcher may elicit additional information by asking additional questions not on his schedule.

In the *non-structured* or *non-directive interview*, the researcher does not have a schedule listing a set of pre-specified questions, nor are the questions asked in a specific order. The researcher does not direct the interviewee and thus the interviewee is encouraged to relate to his/her experiences and to reveal their attitudes and perceptions on the topic of interest. In this method, the interviewer has an opportunity to explore various areas and to raise specific queries during the interviews.

4.3.2.3 Advantages and Disadvantages of Interviews versus Postal Questionnaires

"The main advantage of face to face interviews is that the researcher can adapt the questions as necessary, clarify doubts and ensure that the responses are properly understood by repeating or rephrasing the questions" (Sekaran, 2000: p230). Interviews provide the possibility of eliciting additional information and details, which can provide deeper insights. The interview also results in a higher and more complete response rate than mailed questionnaires. This may be the only way to get information from people who cannot read or write or understand technical language. One further advantage is that during interviews the researcher can collect information on the environment of the interviewee (e.g. request for annual reports, organisation charts, brochures, which are normally entertained as opposed to requests through the mail).

The disadvantages of the interview include cost and the possibility of bias. It is very costly to conduct many interviews over large geographical areas as it may involve training interviewers, transportation and accommodation out of town. The very flexibility of an interview is also an opportunity for researcher bias to influence the data collected. Facial or verbal clues may influence the answers the participants give.

A further disadvantage of the interview would be the lack of anonymity. Participants may feel threatened or intimidated by the interviewee, as she/he knows many personal details of the interviewee such as name, position, organisation, telephone number and addresses. This is especially true if the topic of the research or particular questions is sensitive.

4.3.2.4 Telephone Surveys

Telephone surveys may consist of polls, interview or questionnaire survey conducted over the telephone. Compared to mailed questionnaires or personal interviews they can cover a wider geographical area in a shorter time. However, the disadvantage is the higher cost compared to mailed questionnaire but there can be substantial cost savings compared to personal face-to-face interviews.

The effect of the anonymity of the telephone survey varies; the lack of face to face contact can both be an advantage and a disadvantage. Personal clues cannot be given or received, therefore there cannot be an accusation of researcher bias. However, this is not conducive to getting a greater insight into the perceptions, feelings and thoughts of the interviewee. Furthermore, interviewees may not be comfortable with a faceless researcher as they may fear lack of confidentiality of their views.

In this research, the length of the questionnaire and the nature of the questions, which required some thought was not suitable for administration over the phone. Hence, the telephone was used only for the follow up procedures.

4.4. COLLECTION OF EMPIRICAL EVIDENCE

4.4.1 Choice of Data Sources

In order to collect non-financial information, it was decided to use the corporate annual reports of UK companies. Many studies of corporate social reporting use annual reports to measure social and environmental reporting (Adams, Coutts and Harte, 1995; Barret, 1976; Buzby, 1974; Guthrie and Parker, 1989; Singhvi and Desai, 1971). Although many researchers used corporate annual reports for gathering data on the level of non-financial information disclosure, the use of annual reports as the only data source can be criticised. Even though companies can disclose information using other mediums of communication than annual reports, it was decided to use only annual reports for a number of reasons. Firstly, annual reports were the main corporate documents, which represent a company and are widely used. Secondly, collection of data on all the non-financial information that was disclosed on companies was virtually impossible. And thirdly, as most other studies used annual reports, there was a greater potential for comparability of results.

Having decided on the use of annual reports for content analysis, it was decided to collect data for three years; 1985, 1990 and 1995. The reasons why these three years were chosen for this study were discussed in section 1.3. This was followed by the selection of a sample of the largest Top 100 UK companies from the Times 1000 in 1985 and 1995. This resulted in a sample of 132 companies (see Appendix 4A). A number of selection criteria were then used to omit companies from the original list of 132 companies. Limited companies were removed as their annual reports were not publicly available. Companies in government ownership that were not responsive to the market forces, and non-UK companies that had different annual report formats to UK companies were also removed from the sample. This gave a sample of 97 companies (shown in Appendix 4B). Unfortunately it was only possible to find annual reports for 81 of these companies (see Appendix 5A for the list of companies). Non-financial data were collected from the annual reports of the 81 companies using the two governance and non-governance indices.

To check that the selected sample was representative of its population (i.e. UK companies) the aggregate and average values of a number of financial variables[63] were collected for companies in the sample. All the financial data were collected from Datastream for the periods 1985, 1990 and 1995. Figures 4.1, 4.2, 4.3 and 4.4 represent the aggregate and average graphs on sales and number of employees for both the selected sample and its population. There are two graphs for each variable; one aggregate and one average. Each graph indicates the movement of a specific variable for the selected sample and its population. All the aggregate and average graphs show parallel movements for the selected sample and its population, suggesting that the selected sample is a representative of its population. Similar aggregate and average graphs for different financial variables are also presented in Appendix 4C.

[63] Sales, profit, number of employees, preference capital, capital gearing, and borrowing rate.

FIGURE 4.1 AGGREGATE SALES

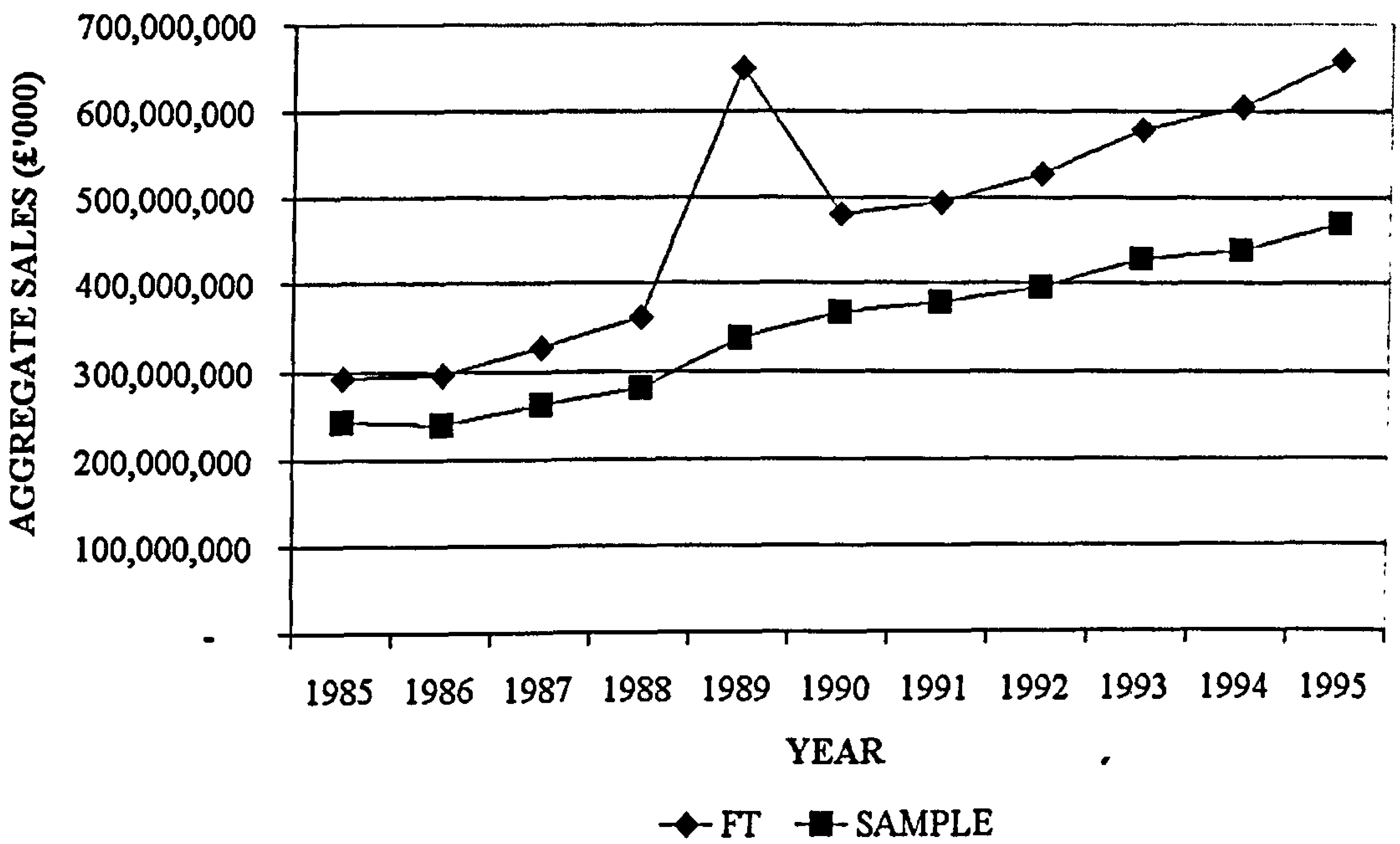


FIGURE 4.2 AVERAGE SALES

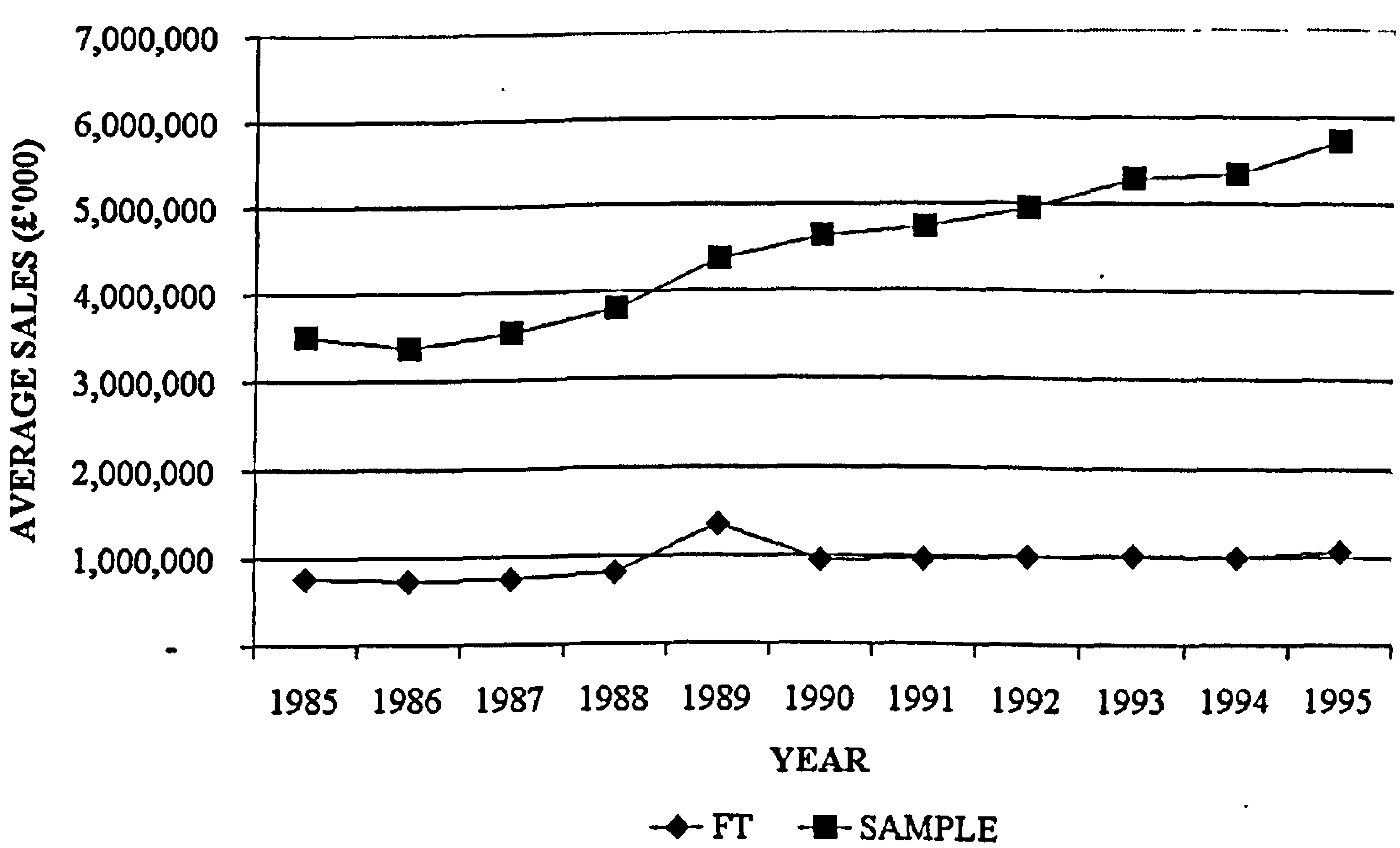


FIGURE 4.3 AGGREGATE NUMBER OF EMPLOYEES

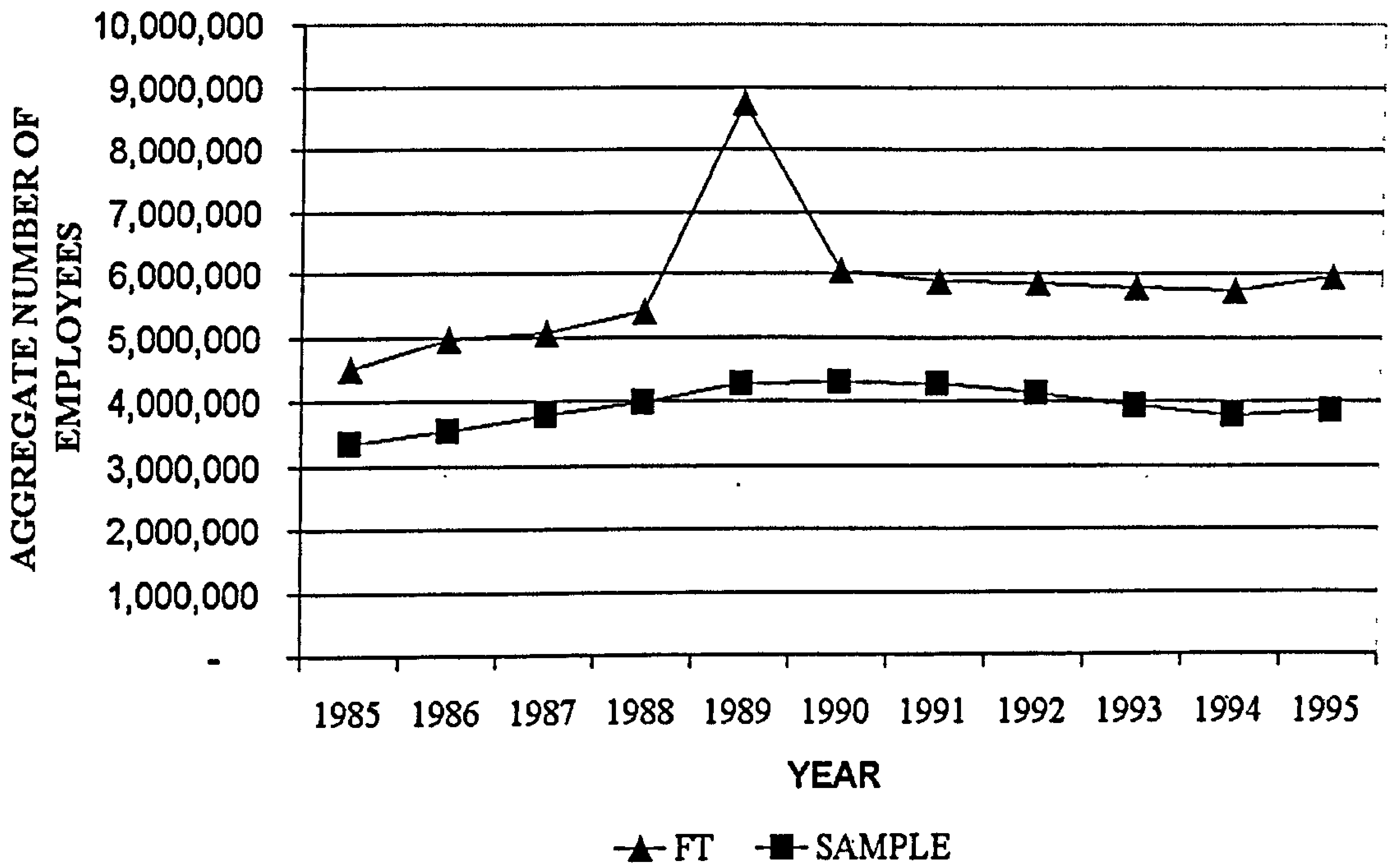
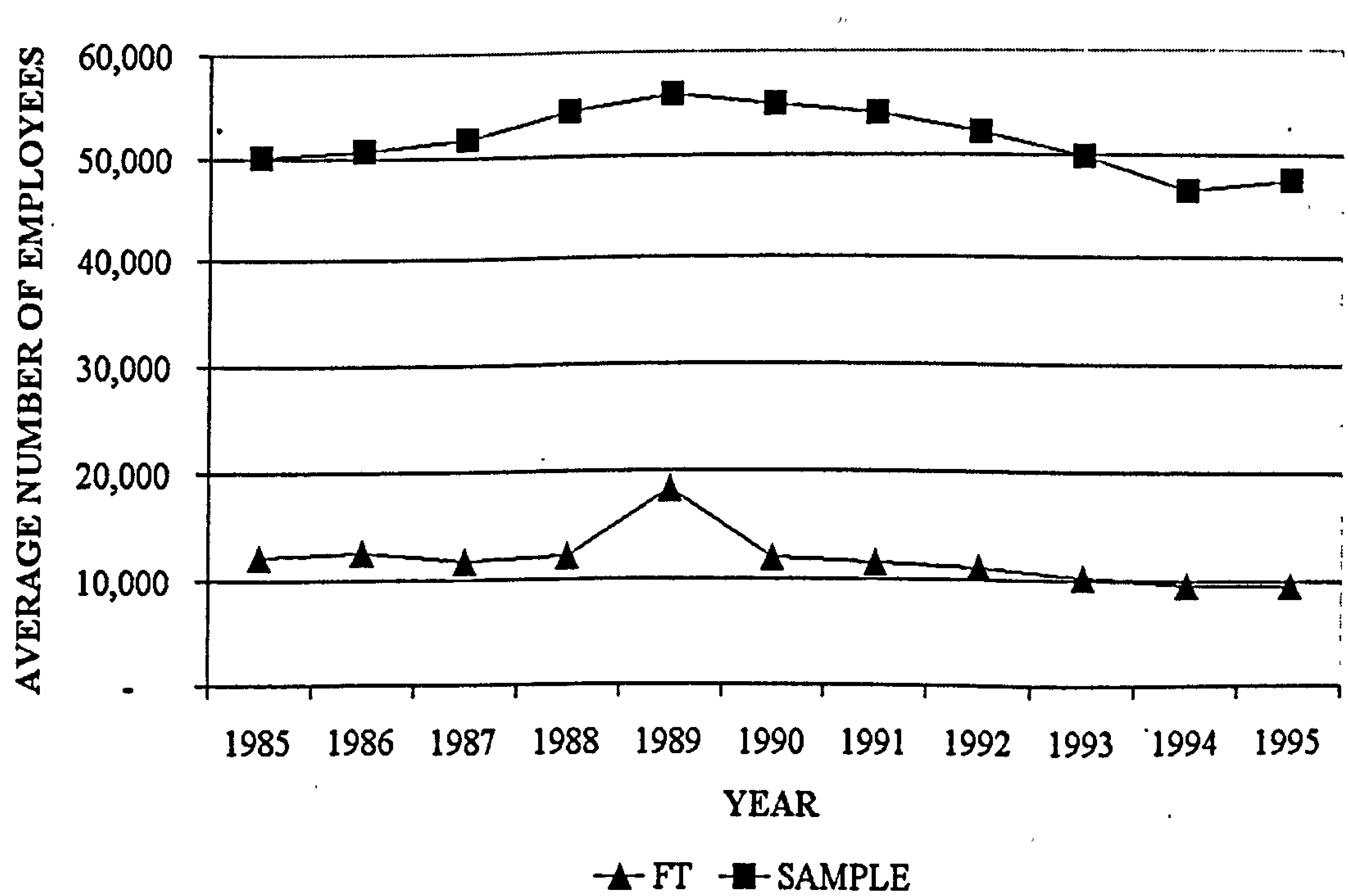


FIGURE 4.4 AVERAGE NUMBER OF EMPLOYEES



4.4.2 Selection of Respondents and Response Rates

It was decided to approach three groups of respondents to participate in the questionnaire survey. Company management together with investors and employees, representing two stakeholder groups were the three selected groups. This study was limited to only three groups due to resource and time constraints. The three groups were expected to provide different angles on the existing situation for stakeholder dialogue. The UK investors were expected to be more interested in financial aspects. It was interesting to see whether the companies communicate their non-financial information to their investors and if their investors were interested in such information. At the same time employees were likely to be interested in a range of non-financial information (e.g. equal opportunity, working conditions, health and safety at work, and etc).

The level of responses received from each of the three groups was different. There were generally three categories: (i) the 'respondents' who completed and returned the questionnaires, (ii) the 'non-respondents' who refused to complete the questionnaires, and (iii) the 'no response' companies, that neither co-operated in completing the questionnaires nor acknowledged their refusal to do so. There was also another group who agreed to co-operate but no response was ever received from them. This group was added to the 'no response' category.

The following sub-sections (sections 4.4.2.1, 4.4.2.2 and 4.4.2.3) provide the details on how each group was approached and the responses received from each group.

4.4.2.1 Companies Managers

The questionnaires were sent out to company secretaries in two separate attempts. It was originally decided to carry out the survey on a sample of 20 companies; 10 companies with the highest non-financial scores and 10 companies with the lowest non-financial scores. The non-financial scores used here were the total scores of the companies selected in the sample (as measured in section 4.5). The top ten highest and the lowest 10 scoring companies were selected in order to represent two different ends of the non-financial disclosure spectrum.

All companies were selected from the original sample of 81 companies selected the previous section (section 4.4.1) including only those companies that were alive in the period when the survey was carried out (i.e. the survey was carried out in May 1997). Due to the smallness of the response rate after the first attempt and because of concern over the low response rate and whether it would be possible to draw any conclusion, it was then decided to try a second attempt and to approach more companies (see Table 4.2). A second sample was therefore selected. This sample included 40 companies (the same selection procedure was applied as for the first sample). The questionnaires were then sent out to all the 40 companies.

In both attempts, the companies were contacted to make sure that they had received the questionnaires. In some cases the company secretaries agreed to complete the questionnaires while in some other cases the questionnaire was passed on to a person with the relevant knowledge. A large number of companies who agreed to participate specifically asked for their identity not to be revealed under any circumstances. Some other companies replied that they had a policy not to respond to questionnaires (see Appendix 4D for the names of non-respondents and no response companies). In comparison some companies had an unfriendly attitude to the idea of communication with their stakeholder groups. In other cases some companies claimed that they could not complete the questionnaire since the detailed knowledge of their operations was not available to them. Apart from some companies, who specifically indicated their dislike of communication with stakeholders, other companies regarded time constraint and the lack of human resources as the main reasons for their lack of co-operations. Other possible reasons could be failure to recognise the importance attached to the survey, threat from their competitors and a general uneasiness of companies for revealing information[64] could be also mentioned.

TABLE 4.2 RESPONSE RATES FROM COMPANIES

First Attempt		
20 companies were selected	**Number of Questionnaires**	**Percentage (%)**
Respondents	7	35
Non-Respondents	11	55
No Response	2	10
Second Attempt		
40 companies were selected	**Number of Questionnaires**	**Percentage (%)**
Respondents	9	22.5
Non-Respondents	20	50
No Response	11	27.5
Overall		
60 companies were selected	**Number of Questionnaires**	**Percentage (%)**
Respondents	16	26.7
Non-Respondents	31	51.7
No Response	13	21.6

Depending on each individual company questionnaires were followed up by phoning companies at different time periods. Overall, only 26.7% of companies in the sample participated and completed the questionnaires (shown in Table 4.2). The remaining 73.3% of companies were continuously contacted on several occasions.

4.4.2.2 Institutional Investors

The Cadbury Code of Best Practice attaches a great deal of emphasis on shareholders and the fact that companies should serve their shareholders' interests. An example of this is meetings with institutional investors, which are held on a one-to-one basis and

[64] In a traditional Anglo-Saxon financial system, companies have a great tendency to remain secretive and refuse to share information publicly. The lack of transparency is one of the important characteristics of an

where the company is represented by a combination of the chairman, the chief executive and the finance directors while fund managers represent institutional investors. In a study by Mallin (1995), it was found that most institutional investors are becoming much more aware of the fact that as large shareholders, they are increasingly expected to play more active role. Mallin (1995) found that:

> "... the increasing willingness of the institutional investors to work together, through their representative bodies, or through informal groupings, or even an *ad hoc* basis, to try to ensure that high corporate governance standards are kept to the fore, and that management are mindful of the institutional investors' role." (p15)

For the purpose of this study, the 3 largest institutional investors (i.e. with holdings of more than or equal to 3%) were selected for each of the 20 companies in the sample[65]. The names of the 3 major investors were publicly available. Some companies appeared to have foreign investors, who were also included in the sample.

Many of the institutional investors had holdings in more than one company. Some institutional investors were the subsidiaries of larger investors, who were also in the sample. These subsidiaries, often small in size, passed on the questionnaires to their investment managers in the holding company, which were already in the sample. As a result, the selected sample included 29 institutional investors. Having received a small number of completed questionnaires it was then decided to use a second sample. This time, the largest 10 fund managers and the largest 10 unit trust managers were selected (see Table 4.3).

Anglo-Saxon Structure (Monks and Minow, 1995).

[65] The selected institutions belonged to one of the major categories of investors, which are: Banks and nominees, Insurance companies, Nominees, Pension Funds, Investment and unit trusts, Charities, local authorities, hospitals, colleges & etc., Other Corporate Bodies (e.g. commercial and industrial companies), and Foreign investors.

Institutional investors were often too busy to respond to questionnaires. Although many of the investors promised to complete the questionnaire when contacted, no response was ever received from some of them. These investors were then placed in a 'no response' category. Overall, a response rate of 31% was achieved (shown in Table 4.3).

TABLE 4.3 RESPONSE RATES FROM INVESTORS

First Attempt		
29 Institutional Investors	**Number of Questionnaires**	**Percentage (%)**
Respondents	10	35
Non-Respondents	5	17
No Response	14	48
Second Attempt		
20 Institutional Investors	**Number of Questionnaires**	**Percentage (%)**
Respondents	5	25
Non-Respondents	0	-
No Response	15	75
Note: In the second attempt neither of the Unit Trusts responded while 5 out of 10 fund managers completed and returned the questionnaires		
Total Positive Response Rate = (10+5)/49 = 31%		

4.4.2.3 Employees

Employees form the most important stakeholder groups, who play a long-term role in the corporate success. Over the years many attempts have been made to protect employees' rights through either legislation or trade unions. In the 1970s, for example, there was pressure to place a statutory requirement on companies to disclose financial and non-financial information to their employees. Such legislation was never enacted. The Companies Act 1985 requires companies to inform shareholders about their information provision to employees[66].

[66] The directors' report must include a statement, which describes the action taken during the financial year to introduce, maintain or develop arrangements aimed at:

- Providing employees systematically with information on matters of concern to them as employees;
- Consulting employees, or their representatives, on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests,
- Encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means;
- Achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

In order to target employees and ask them to participate in the questionnaire survey two approaches could be adopted. One approach was to send questionnaires to the head of personnel or the human resource manager (HRM) of companies. The second approach was to send questionnaires to trade unions and branch managers for each company. Each of the two approaches is discussed in the following sub-sections (4.4.2.3.1 and 4.4.2.3.2).

4.4.2.3.1 Head of personnel/Human resource manager (HRM)

This approach had several advantages over that of the trade unions. The names and addresses of the head of personnel/HRM were publicly available. They could easily be approached and asked if they were willing to co-operate in the survey.

There is empirical evidence to suggest that trade union membership has dropped considerably since the Second World War. The trade unions are known to represent less than one third of the work force and have 62% of employee members who are in the public sector compared with 23% of employees in the private sector (Wickersham, 1995). There are also other variations in unions membership with regard to different industrial or geographical categories (e.g. 88% of those in the electricity generation and supply industry are union members compared with just 4% in computing). This raised the question of whether the responses from trade union representatives would be a fair representation of the population of employees in the private sector. This however, would not be of relevance to this study since the study addressed the stakeholders as groups and not as individuals. A good example of such changes is *The Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment)*

(See The Corporate Governance Handbook p 9/2).

Regulation 1995[67]. Under this new regulation, employers are required to recognise the employee representatives; these representatives may be trade union representatives, but where no union is recognised, the representatives must be elected by the employees.

Finally, the changes in the traditional roles of human resource managers should be taken into consideration. Personnel managers are expected to play different roles in comparison to their traditional roles. Generally, companies are increasingly required to be aware of their employees' affairs. According to an article published in 1996:

> "A Personnel management in the last two decades has grown out of its origins in welfare and no longer exists to carry out a plethora of reactive functions such as sorting out wages queries or sending out reminders that appraisals are due. It is now a function which requires professionals to become strategists in many areas such as planning, remuneration, industrial relations, training, recruitment, employment law or management development." (*CORNER*, September 1996, pp4-5) [68]

Although stakeholder theory has not been explicitly mentioned in the human resource management literature, the emphasis on a more efficient human resource management appears to be in line with or to favour a stakeholder mentality, thereby more attention is paid to employees' welfare.

There are however, practical difficulties associated with approaching a head of personnel/HRM. If the questionnaires are sent out to them, they may not be passed on to their employee representatives. Rather the head of personnel/HRM may complete the questionnaires, or they may be passed on to employees sympathetic to the management. There is also a chance that if questionnaires are passed on to employee representatives

---

[67] This regulation is to protect employees in the case of redundancies and transfer of undertakings from those employers who do not recognise an independent trade union for every employees. For further details see the following: "Consultation and Employee Representatives", *CRONER Reference Book for Employees*, Issue No 108, 30 July 1996, p4.

[68] "The Devolution of Managing Human Resources", *CRONER Reference Book for Employees,* Issue No

through the management, employee representatives might not feel they have the freedom to report the true situation.

Companies were also approached to provide the names of their employee representatives. Some companies claimed to have no representative and, in general, companies were not willing to provide the names of their employee representatives. The names and addresses of employee representatives were not publicly available to approach them directly. It is noteworthy that this study addresses employees as one of the major stakeholder groups and does not address employees individually. Hence it was not appropriate to approach individual employees. This can be regarded as a serious shortcoming of this approach and would make the outcomes of this approach highly prone to bias. It was therefore decided not to use this approach.

4.4.2.3.2 Trade Unions

There was no directory providing a list of the names and addresses of the trade union representatives in public limited companies. Once again when companies were approached they expressed their unwillingness to provide such information. Companies are not required by law to disclose public information on their employee representatives or on their trade union representatives. The only publicly available information was the *Trade Union Congress (TUC) Directory 1997* providing the names and addresses of major trade unions together with the names of their general secretaries. Due to these caveats, it was decided to approach the general secretaries of the 10 largest unions. A cover letter coupled with a copy of the questionnaire together with a list of 20 companies were sent out to the general secretaries asking for them to send the questionnaires to their union representatives in companies on the list. For those

---

109, 2 September 1996, pp 4-5.

companies that did not recognise a union representative, the general secretaries were asked to provide the names of their associated branch officials. This approach was decided to be the least biased approach available in representing the employees' situation.

From the 10 largest trade unions, only 1 replied that it was not interested in the survey. The remaining 9 supported the survey and indicated that they were willing to participate. Despite this, only 3 unions co-operated and positively contributed to the survey. Although the remaining 6 unions were repeatedly contacted at different time periods and the questionnaires were faxed to them several times (since they claimed not to have received the questionnaire), no positive contribution was made by them. These unions were classified as 'no response'.

Due to the Data Protection Act (1984) the unions were not allowed to provide the names and addresses of their union representatives to externals. Because of this limitation the third and the most co-operative union agreed to identify their most informed union representatives and to send out the questionnaires together with a cover letter from the Union General Secretary, asking for their co-operations. This union sent out about 10 questionnaires of which seven questionnaires were completed in detail (see Table 4.4). Another union was covering only two of the companies in the sample. The head of research in this union agreed to complete the questionnaire as a representation of the situations in the two companies since the two companies had too many representatives and not all of them were thought to be well informed of the situation in different parts of their company. The questionnaire received from this union had been thoroughly completed. From the three unions who contributed positively, one union provided a list, including the names and addresses of their representatives. The questionnaires were then sent out to these representatives.

TABLE 4.4 RESPONSES FROM THE TRADE UNIONS

Unions Approached	
The 10 largest unions were approached. 3 contributed positively, i.e. agreed to co-operate 1 replied negatively, i.e. was not interested in the survey 6 no response - although they showed interest no contribution was made by them	
Questionnaire Response Rate	
Union A:	7 responses out of 10 Questionnaires sent out.
Union B:	1 response out of 1 was sent out.
Union C:	2 responses out 7 were sent out.
Total Positive Response Rate = (7+1+2)/18 = 56%	

4.5 EVIDENCE ON THE DISCLOSURE OF NON-FINANCIAL INFORMATION

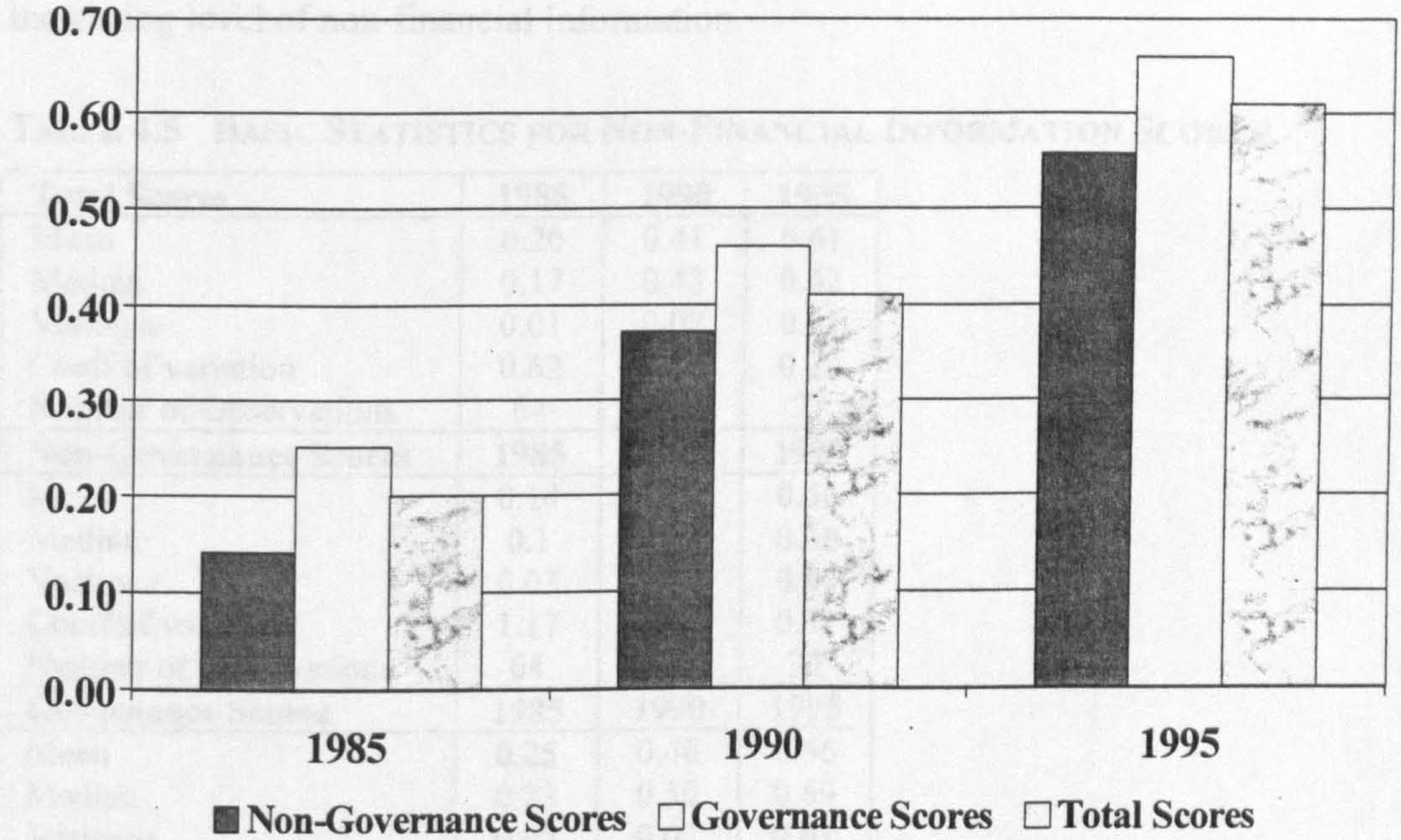
In order to proceed with the investigation of the first key research question, evidence on the rising level of non-financial information is required. In the case of governance information, a lower level of non-financial information disclosure is expected before the introduction of the Cadbury code in 1992. Many of the corporate disasters took place in the late 1980s. At the same time, following the increased public awareness on social and environmental issues, a higher level of non-governance information is expected for 1990 and 1995.

If evidence on the rising level of non-financial information is observed, the first key research question can be investigated to find out if there were any significant associations between corporate characteristics and non-financial information disclosure.

Content analysis is used to quantify the level of non-financial information disclosed in the annual reports of the major UK companies. The outcomes of the content analysis present the level of information disclosure for the three chosen years. Figure 4.5 presents the level of non-financial information disclosed in the three years under investigation. The evidence clearly shows that there was an increase in the level of non-financial information disclosure in the annual reports of the major UK companies from 1985 to 1995. Looking at the growth rate of non-financial information disclosure (see Figure 4.5), the largest growth rate was observed for 1985-90, indicating the rising public awareness of social and environmental issues in the late 1980s.

According to the statistics (shown in Table 4.5 and Figure 4.5), both the mean and the median values of non-financial scores had grown considerably (i.e. 68.3% and 72.6%, respectively) over the period 1985-95. Looking at the two components of total scores (i.e. governance and non-governance scores) it was evident that governance scores were, generally, higher than non-governance scores for all the three years. One possible explanation for this is that companies were disclosing more governance information as they were considering their governance issues to be investor related and were therefore paying more attention to meet their investors' information requirements. But, more importantly, this could be due to the explicit guidelines on good governance practice.

FIGURE 4.5 NON-FINANCIAL INDICES AND THEIR GROWTH



Note: NGscore stands for non-governance scores, Gscore stands for governance score and Tscore stands for total score. Also, corporate growth rates are shown below:

Growth (%)	Tscore		Ngscore		Gscore	
	Mean	Median	Mean	Median	Mean	Median
1985-95	68.3	72.6	75.0	83.3	62.1	66.7
1985-90	51.2	60.5	62.2	75.0	45.6	54.0
1990-95	32.8	30.7	33.9	33.3	30.3	27.5

The histograms shown in Figure 4.5 represent the mean values shown in Table 4.5.

Two further interesting observations can be obtained from Figure 4.5. Firstly, it was interesting to observe that the highest growth rate for the level of non-financial information was for the period between 1985 and 1990. Secondly, the level of non-governance information grew considerably faster than the level of governance information (62.2% and 45.6%, respectively). As it was discussed in *Chapter 1* (section 1.1), 1985-90 coincides with the rising public awareness on social and environmental issues. At the same time, the initiatives for the European Union, which emphasized the development of the social dimensions of the union, took place during the same period[69]. The rising public awareness in the UK coupled with the European Union can be regarded as two potential reasons that put companies under more pressures to divulge an increasing level of non-financial information.

TABLE 4.5 BASIC STATISTICS FOR NON-FINANCIAL INFORMATION SCORES

Total Scores	1985	1990	1995
Mean	0.20	0.41	0.61
Median	0.17	0.43	0.62
Variance	0.01	0.02	0.01
Coeff of variation	0.62	0.31	0.20
Number of Observations	64	73	71
Non-Governance Scores	**1985**	**1990**	**1995**
Mean	0.14	0.37	0.56
Median	0.1	0.40	0.60
Variance	0.03	0.05	0.04
Coeff of variation	1.17	0.59	0.37
Number of Observations	64	73	72
Governance Scores	**1985**	**1990**	**1995**
Mean	0.25	0.46	0.66
Median	0.23	0.50	0.69
Variance	0.02	0.02	0.01
Coeff of variation	0.57	0.33	0.15
Number of Observations	64	74	71

Notes: All figures are proportions

Another interesting observation is the declining coefficient of variation of index values from 1985 to 1995 (see Table 4.5). The high coefficient of variation in 1985 (e.g. 0.62) implies that the level of non-financial information disclosure varies considerably across the sample. The coefficient of variation appeared to be halved (e.g. 0.31) by 1990 and a further drop (e.g. from 0.31 to 0.20) by 1995 indicates that the variation in the level of non-financial information disclosure by companies across the sample was generally low.

[69] As a result of the movements, the social policies were no longer the "end result" but the "pre-requisite" of the political and economic success (Hantrais, 1995; and Room, 1994).

Looking at the reported coefficient of variations in Table 4.5, it is obvious that the coefficient of variation for non-governance index is almost twice as high as those of the governance index in each of the three years. This implies that the disclosure of non-governance information in the annual reports of UK companies was not as widespread across the companies in the Top 100 as the disclosure of governance information was. This could be due to greater pressures felt by UK companies in disclosing governance information to their investors. As discussed earlier, the corporate governance guidelines mainly focus on investors' interests and their expectations (Hampel Committee, 1998).

In order to gain better insight into the rising level of non-financial information disclosure, the percentage number of companies disclosing information on each non-financial information category is reported in Table 4.6. The results show considerable growth in all non-financial information categories. Particularly noticeable are the moves towards compliance with the Cadbury recommendations by the companies in the sample.

Despite the absence of any regulatory requirements for the disclosure of non-governance information in the UK, the results in Table 4.6 clearly show a considerable rise in the number of companies disclosing non-governance information. The only non-governance category, which was reported by only a few of companies in 1995, was 'working condition' (e.g. reported by 22.6% of companies) but instead it had a high growth rate of 83.2% for 1985-95. At the same time, the number of companies that disclosed information on 'discrimination' fell from 64.2% in 1990 to 51.2% in 1995. This information category had the smallest growth rate (i.e. 37.3%) for 1985-1995.

TABLE 4.6 PERCENTAGE NUMBER OF COMPANIES DISCLOSING INFORMATION ON EACH NON-FINANCIAL CATEGORY

Non-Financial Information	1985	1990	1995	Growth 1985-95
A. Non-Governance Information	%	%	%	%
Environmental Issues	4.9	22.2	70.2	93.0
Health and Safety	11.1	35.8	54.8	79.7
Discrimination	32.1	64.2	51.2	37.3
Working Conditions	3.8	6.2	22.6	83.2
Training	21.3	43.2	77.4	72.5
Employee Share Ownership	22.2	45.7	72.6	69.4
Communication/Others	22.5	42.0	64.3	65.0
Community Involvement	17.5	56.1	69.0	74.6
Research and Development	18.8	37.8	50.0	62.4
Renewal of Technology	5.0	22.0	42.9	88.3
B. Governance Information				
Non-Executives Directors	51.9	82.9	100.0	48.1
Executive Directors	56.8	85.4	100.0	43.2
Outside Directors	0.0	0.0	2.5	2.5
Separation of CEO & Chairman Positions	28.0	52.4	60.4	53.6
Shares Held by Senior Managers	50.6	84.1	94.0	46.2
Options Held by Senior Managers	38.3	64.6	94.0	59.3
Salary and Bonuses	74.1	80.5	96.4	23.1
Pension	1.2	26.8	73.8	98.4
Audit Committee	11.1	39.0	92.9	88.1
Remuneration Committee	7.4	22.0	91.7	91.9
Nomination Committee	1.2	8.5	67.9	98.2
Environment Committee	0.0	2.4	8.3	8.3
Compensation Committee	0.0	3.7	17.9	17.9

Another interesting observation was the large number of companies disclosing information on 'environmental' issues. This information category had the highest growth (i.e. 93% in 1985-95). While in 1995 70.2% of companies disclosed environmental information only 8.3% of companies appeared to have environmental monitoring committees as part of their governance structures. 'Renewal of technology' is another information category, which had the second highest growth rate (i.e. 88.3%) for 1985-95. Although this information category is not regarded as 'social' information in the existing literature many companies (i.e. 42.9% in 1995) disclosed information relevant to it.

In the absence of any regulatory requirements for the disclosure of non-governance information the 'quality' of non-governance information can be questioned. Even though the guidelines on corporate governance hardly consider any monitoring measures for non-governance issues companies that paid attention to the quality of their non-governance information were expected to have implemented monitoring measures for their governance structures, as recommended by the codes of best practice and guidelines provided by various committees.

To see if there was any correlation between governance and non-governance scores, the correlation between the two indices were measured (as will be explained in section 4.6 Spearman rank correlation was used). The results (shown in Table 4.7) show that the correlation between the two indices was high for 1985 (i.e. 80.3%). The correlation was halved by 1990 (i.e. 44.2%) and had a further drop to 20.5% in 1995.

TABLE 4.7 SPEARMAN RANK CORRELATION BETWEEN GOVERNANCE AND NON-GOVERNANCE SCORES

Year	Spearman Correlation
1985	0.803 (0.000)
1990	0.442 (0.000)
1995	0.205 (0.000)

Notes: The figures in bracket show the significant level.

The high correlation in 1985 can be explained by the absence of any regulatory recommendation on corporate governance. By 1990, when companies were expecting the publication of the Cadbury codes and in 1995, when the codes had been published, the level of governance information had risen considerably. Most of the governance information was in compliance with the regulatory codes. While regulatory codes had been introduced on corporate governance since 1992, no code of conduct was published to regulate the disclosure of 'non-governance' information in the period. The absence of any codes of conduct can be regarded as a potential reason for the fall in the correlation between the two scores from 1985 to 1995.

4.6 METHODS OF DATA ANALYSIS

In order to investigate the *supporting research questions 1* to *4*, the empirical analysis of the gathered data is carried out in *Chapter 5*. Companies in the sample are classified into different industrial, size and growth categories. No classification was carried out for corporate performance as companies were selected from the Top 100 companies and were therefore from different industrial backgrounds.

Basic statistics and cross-tabulations are used, when appropriate, to present the level of non-financial information disclosure across different categories of corporate characteristics. All other supporting research questions will be investigated in two ways. One way is to test if the average non-financial scores are equal for different categories of corporate characteristics. If the test shows that the average non-financial scores is different for different categories of corporate characteristics, it will be argued that companies with certain characteristics disclosed more non-financial information (for example, larger companies, faster growing companies or companies in certain industries had disclosed more non-financial information than others).

The second way is to test whether the non-financial scores of companies in different categories are equal. In order to do so, one way is the analysis of variance (ANOVA), which is a parametric test, that can be used[70]. In order to decide whether the ANOVA test is the appropriate test to use for the gathered data, it is necessary to ensure that three assumptions needed for the test are met. The three assumptions are: 'independence', 'normality' and 'equality of variance'. In this study, the non-financial scores observed for a company were found to be independent of the non-financial scores observed for other companies. Therefore, the assumption of 'independence' holds.

The second assumption, which is the most crucial assumption, requires a 'normal' distribution for companies in each category. A t-test for normal distribution can be carried out to ensure the 'normal' distribution. At the same time, in the case of small samples the presence of an unusual observation (i.e. an outlier) can easily deter the normal distribution assumption and have a big impact on the mean and standard deviation. If there is any doubts about the normal distribution in each category, a non-parametric test should be carried out instead of a parametric test. Tests for 'normality of distribution' were conducted using t-test for kurtosis and skewness[71]. The evidence did not unanimously support the condition of 'normality' for all categories over the three years under investigation. Therefore, the assumption of 'normality' did not hold.

The third assumption was the equality of variance. As will be shown in cross-tabulation tables in *Chapter 5*, the number of observations in different corporate categories were small and similar, and as a result the equality of variance assumption was not too important (Norusis, 1995: p283).

---

[70] Cooke (1993), who used indexing, used a similar method in analysing his data. He used a parametric test when the assumption of 'normality' was held, and used a non-parametric alternative when the assumption of normality was deterred.
[71] The test was carried out in excel. Cooke (1993) carried out a similar test for 'normality'.

As the assumption of 'normal' distribution did not hold, it was decided to use the Kruskal Wallis test, which is the non-parametric alternative test to ANOVA and does not require the assumption of 'normality'. One of the shortcomings of non-parametric tests is that they are not as powerful as parametric tests as they ignore some of the available information. However, as they require less stringent assumptions they can be used in place of parametric test.

Another way of exploring the above supporting research questions is to test for associations between corporate characteristics and non-financial scores (governance, non-governance and total scores). This is done using Spearman rank correlation, which is the non-parametric version of Pearson Chi-square. Spearman rank correlation is used to investigate the supporting research questions 1, 2, 3 and 4.

4.7 QUESTIONNAIRE DESIGN

4.7.1 Construction of The Questionnaires

Questionnaire surveys have been used in many different research studies. At the same time, there have been many authors discussing the methods of constructing questionnaires and suggesting how questions can be worded so that they serve the purpose that they have been designed for (Sekaran, 1992; and Nachmias and Nachmias; 1996).

In this study, questions were kept short and simple so that they could be easily understood. In addition the respondents would have more time to respond to the questions. The questionnaire went through several versions before it was developed to its final version[72].

Three slightly different questionnaires were designed, one for companies, one for investors and one for employees (a copy of the questionnaire designed for each group is shown in Appendices 4E, 4F and 4G). The original questionnaires were very long winded with little structure in terms of classification of the questions and sequence of questions that were asked. Although the questionnaires were not pilot tested among UK companies, several were administered to some researchers. In the case of employees, it was not possible to send the questionnaire to a pilot sample of the trade union representatives. The author had only one chance of sending out the questionnaires to the trade union representatives. It was not, therefore, possible to pilot test either of the questionnaire to employees. In order to treat all the three respondents in a similar manner it was decided not to pilot test the questionnaires to either of the three groups. This decision was based on the fact that the questions in each questionnaire were easy to understand. To support this assertion, none of the respondents contacted us to enquire about different aspects of the questionnaires and the lack of clarity of the questions.

4.7.2 The Objectives of The Questionnaires

The three questionnaires were designed in a way that they would provide answers to the two *supporting research questions 5* and *6*. The questionnaire that was prepared for companies addressed the *supporting research question 5,* which was concerned with identification of the stakeholder groups. In this part, companies were asked to classify

---

[72] The questionnaires were discussed with and commented by fellow PhD students, a professional researcher specialised in industrial relations and another researcher, who had experience in working with the trade unions, at Middlesex University Business School.

their stakeholder groups according to their importance. Companies were also asked if they had any procedures for doing so. Apart from this section, all the three questionnaires addressed the *supporting research question 6* by focusing on the three aspects of stakeholder dialogue, which were discussed in section 3.4.2. The three aspects were 'methods of communication', 'information items communicated' and 'two-way communication and consultation'.

The objectives of the questionnaires were to provide answers to the following questions:

1. Supporting Research Question 5

A. Stakeholder Identification

(i) Whether companies *attached different importance* to their major stakeholder groups?

(ii) Whether companies had any *procedures to classify* their major stakeholder groups?

2. Supporting Research Question 6 – Stakeholder Dialogue

B. Communication Methods

(i) Which *communication methods* were used to communicate with each stakeholder group?

(ii) Whether *appropriate methods* of communication were used for different stakeholder groups?

- This was measured by asking stakeholders' preferences.

C. Information Items Disclosed to Stakeholder Groups

(i) Which *information items* were disclosed to each stakeholder group?

(ii) How *useful* the disclosed information items were as perceived by stakeholder groups?

D. Two-way Communication and Consultation

(i) Whether there was *two-way communication* between companies and each of the stakeholder groups?

- This was investigated by assessing if there were quality/dialogue circles with stakeholders.

(ii) Whether companies were making any attempts to inform their stakeholders of corporate values and expectations?

- This was investigated by assessing if training programmes were offered to stakeholder groups

(iii) Whether there was *consultation* between companies and their stakeholder groups?

- This was investigated by assessing if there was any joint consultation committee with stakeholder groups?

(iv) The usefulness of the communication and consultation methods as found by stakeholder groups.

(v) Whether companies made any attempt to find out about their stakeholders' values, expectations and interests?

- This will be investigated by seeking to find out if *attitude surveys* were sent out to stakeholder groups.

(vi) Whether companies kept an open mind to receive suggestions from their stakeholders?

- This will be investigated by seeking to find out if *suggestion schemes* were available to stakeholder groups.

Table 4.8 presents a brief summary of different sections that is included in the questionnaires. Despite minor discrepancies in the questionnaires sent to the three groups and apart from part A (e.g. 'stakeholder groups' – as shown in Table 4.8), all the questionnaires sent out to the three stakeholder groups shared the same structures that were shown in Table 4.8. A copy of the questionnaire that was sent out to each stakeholder group is shown in Appendices 4E, 4F and 4G. The findings for the questionnaire will be discussed in details in *Chapter 6*.

TABLE 4.8 QUESTIONNAIRE SECTIONS AND PURPOSES OF EACH SECTION

Questions Asked and Purpose of the Question
A. Stakeholder Groups • Whether companies attach different importance to their major stakeholder groups • Do companies have any procedures for classifying their stakeholder groups according to their importance? This section was included in the questionnaires sent out to companies only.
B. Methods of Communication used **Face-to-face methods** 1. Group Meetings (Apart from the annual general meeting) 2. Cascade networks 3. Large-scale meetings **Written Methods** 1. Company Handbooks 2. Information notes to stakeholder representative 3. House journals 4. Newsletters 5. Departmental Bulletins 6. Notices 7. Individual letters to stakeholder group representatives **Other Methods** 1. Information points 2. Audio-visual aids 3. Electronic mail This section seeks to find out which methods of communication were used for each stakeholder group and how useful each stakeholder group found each method.
C. Information Items Disclosed **Information about the organisation** 1. Work objectives and performance 2. Operating and technical information 3. Health and safety 4. Information on personnel (Who the key positions are) 5. Working conditions 6. Supervision and management of different operational procedures 7. Administrative procedures 8. Training and development 9. Development in technology and methods 10. Equal opportunities 11. Social and welfare facilities to each stakeholder group **Marketing Information** 1. Company Market Share 2. Company Market Segment 3. Mergers and Acquisitions 4. Investment 5. Details of products and services 6. Future plans on developing products and services 7. Future plans on other issues 8. Research and development 9. Environmental issues This section seeks to find out which information items were disclosed to each stakeholder group and how useful each stakeholder group found each item.
D. Two-way Communication and consultation **Quality Circles** Measures the level of two-way communication between companies and their stakeholders **Training Programmes** Companies use training programmes to communicate various aspects of their operations as well as their

Questions Asked and Purpose of the Question
expectations to their employees.
Joint Consultative Committees Measures the level of consultation between companies and their stakeholders
Attitude Surveys Companies provide their stakeholder groups with one-way communication The use of attitude surveys shows how keen a company is in finding out their stakeholders' expectations, interests and values
Suggestion Schemes One-way Communication The use of suggestion schemes shows whether companies kept an open mind to receive suggestions from their stakeholders

4.8 CHARACTERISTICS OF RESPONDENTS AND NON-RESPONDENTS

4.8.1 Non-Financial Information Disclosed by Respondents and Non-Respondents

This section considers the non-financial characteristics of both respondents and non-respondents, using the non-financial information indices introduced in *Chapter 3*. The governance and non-governance scores for both respondents and non-respondents are shown in Table 4.9. The difference between the two groups in terms of each non-financial information category in the index is shown in the third column.

The results in Table 4.9 indicate that the differences between the statistics on the non-governance scores of both the respondents and the non-respondents are not large. For instance the non-governance scores were 58.8% and 52.3% for both respondents and non-respondents respectively. Looking at individual non-governance information categories, the respondents had higher scores for five non-governance information categories which are: 'discrimination', 'environmental issues', 'renewal of technology', 'contribution to communities', and 'research and development' (shown in Table 4.9). In comparison to the respondents, 'health & safety' and 'working conditions' were the only two information categories for which the non-respondents had scored higher. In order to explore the reasons for the observations on 'healthy & safety' and 'working conditions' Table 4.10 presents the industrial affiliations of respondents and non-respondents.

TABLE 4.9 NON-FINANCIAL INFORMATION DISCLOSED BY RESPONDENTS AND NON-RESPONDENTS

	Respondents	Non-Respondents	Difference between Respondents and Non-Respondents
Number of Companies	16	44	
Non – Governance Index	**%**	**%**	**%**
1. Environmental Issues	81.3	61.4	19.9
2. Health & Safety	*43.8*	*50.0*	*-6.2*
3. Discrimination	68.8	45.5	23.3
4. Working Conditions	*18.8*	*27.3*	*-8.5*
5. Training	75.0	75.0	0.0
6. Employees Share Ownership	68.8	63.6	5.2
7. Communication/others	56.3	59.1	-2.8
8. Communities	75.0	61.4	13.6
9. Research and Development	43.8	38.6	5.2
10. Renewal of Technology	56.3	40.9	15.4
Mean	**58.8**	**52.3**	**6.51**
Governance Index	**%**	**%**	**%**
1. Non-Executives Directors	100.0	97.7	2.3
2. Executives Directors	100.0	97.7	2.3
3. Outside Directors	6.3	0.0	6.3
4. Separation of CEO/Chairman Position	62.5	50.0	12.5
5. No. of Shares owned by Directors	87.5	93.2	-5.7
6. No. of Options owned by Directors	93.8	95.5	-1.7
7. Salary & Bonuses	93.8	100.0	-6.2
8. Pensions	75.0	70.5	4.5
9. Audit Committee	87.5	93.2	-5.7
10. Remuneration Committee	62.5	86.4	-23.9
11. Nomination Committee	50.0	59.1	-9.1
12. Environmental Committee	0.0	4.5	-4.5
13. Compensation Committee	25.0	13.6	11.4
Mean	**64.9**	**66.3**	**-1.35**

Notes: Percentages in 'Respondents' and 'Non-Respondents' columns represent the number of companies disclosing information.

In the case of 'health and safety' Table 4.10 shows that non-respondent companies were mainly from 'Food Producing', 'Engineering', 'Communication', 'Oil, Gas and Nuclear Fuel', 'Retailers', and 'Transport' industries. It is in the nature some of these industries to be involved in operations that require high standards of 'health & safety'. In fact, these companies are required by law to comply with 'health and safety' regulations and are very likely to be under scrutiny by the activist groups as well as the media for non-compliance.

In the case of 'working conditions' (shown in Table 4.10), the only plausible explanation for higher disclosure was that 4 non-respondents were from "Food Producing' industry (e.g. 4 out of a total number of 7 non-respondents companies in 'Food Producing' industry). Companies in Food Producing industry appeared to disclose relatively more information on 'working conditions'. It was interesting to observe that all companies in 'Food Producer' were non-respondents. At the same time, it is worth noting that companies in Food Producer industry face various health and safety regulations and guidelines set by *Health and Safety Executive* (HSE). Many of the health and safety guidelines encompass issues related to working conditions. For instance, there are explicit guidelines on the safe usage of equipment as well as the safe conditions of premises and equipment. There are explicit references to the well being of the employees. In a report by HSE (2000), called *Injuries and Ill Health Caused By Handling The Food and Drink Industry*, reference is made to different injuries and ill health caused by working in the industry and provides instructions and guidance as how to prevent them. The report refers to activities involving stacking (e.g. trays), cutting (e.g. meat), wrapping, packing and positioning (e.g. poultry industry) as specific industry causes of illness.

TABLE 4.10 INDUSTRIAL AFFILIATION OF RESPONDENTS AND NON-RESPONDENTS AND THE NUMBER OF COMPANIES DISCLOSING INFORMATION ON 'HEALTH & SAFETY' AND 'WORKING CONDITIONS'.

RESPONDENTS			
Industrial Category	**Total Number of Respondent Companies in Each Industrial Group**	**Working Condition**	**Health & Safety**
1.Brewers & Distillers	1	0	0
2.Electronics	1	0	1
3.Engineering	1	0	0
4.Food Retailers	2	0	0
5.Hotel & Leisure	1	0	1
6.Media	2	0	0
7.Merchandising	3	1	2
8.Oil, Gas & Nuclear Fuels	1	1	0
9.Pharmaceutical	1	1	1
10.Retailers	3	0	2
NON-RESPONDENTS			
Industrial Category	**Total Number of Non-Respondent Companies in Each Industrial Group**	**Working Condition**	**Health & Safety**
1.Brewers & Distillers	2	1	1
2.Building & Construction	1	1	1
3.Chemicals	2	1	0
4.Communications	2	0	2
5.Distributors	2	0	0
6.Diversified Industries	4	1	1
7.Electricity	2	1	1
8.Electronics	1	1	1
9.Engineering	5	0	2
10.Food producer	7	4	3
11.Food Retailing	1	0	1
12.Health Care	1	0	0
13.Merchanding	2	0	0
14.Oil, Gas & Nuclear Fuels	2	0	2
15.Paper, Packaging & Printing	1	0	0
16.Pharmaceuticals	1	0	1
17.Retailers	3	0	2
18.Support Services	1	0	0
19.Textile	1	0	1
20.Transport	3	0	2

Note: All figures represent the number of companies. The figures in the two columns, named 'Working Conditions' and 'Health & Safety', show the number of companies that disclose information on each information category.

According to the above observation, even though companies in highly regulated 'Food Producer' industry disclosed information on issues relevant to them (i.e. 'Working Conditions' and 'Health & Safety'), all of the companies explicitly stated their unwillingness to take part in the questionnaire survey which clearly assessed the level of interaction between companies and their stakeholders. This could undermine the quality of the non-governance information that these companies disclose in the absence of an audit procedures or any other regulatory or statutory requirements that would ensure the quality of the disclosed non-governance information.

The second half of Table 4.9 presented the level of governance information disclosed by respondents and non-respondent groups. In the presence of codes of conducts (e.g. Cadbury and Greenbury reports), there appeared to be a small discrepancy between the two groups. On average, the respondent companies had scored slightly lower (i.e. 64.9% as compared to 66.3% of non-respondents).

The above observation on governance score is not at all unexpected. All companies selected for the purpose of this survey were among the Top 100 companies and were expected to highly, if not fully, comply with the Cadbury's requirements. Although the overall governance scores did not distinguish between the two groups, there were a few information categories in the governance index that were considerably higher for the respondents. For instance, 'outside directors' is one of those categories. By definition, there is no difference between outside directors and non-executive directors. However, 6.25% of respondents, as compared to 0% of non-respondents, showed that they had outside directors in addition to their non-executives directors (see Table 4.9). None of the respondents were approached and asked why they made such a distinction. It is nevertheless assumed that by outside directors companies meant those non-executive directors who were completely independent with no previous connections or any indirect links with the company. In other words, the respondent companies indicated the presence of more independent external bodies in their governance structures than the non-respondents did.

The other governance information category that was considerably different for the two groups was 'separation of chief executive officer (CEO) and Chairman Positions'. The evidence showed that 62.5% of respondents had two separate positions in comparison to 50% of non-respondents. Clearly, the respondent companies had taken more independent measures in their monitoring systems than the non-respondent companies had.

In the case of directors' pecuniary benefits, the evidence showed that the respondents scored higher for 'pension schemes' and 'compensation committees', suggesting that higher independent measures were taken by respondents (see Table 4.9). This was, however, contradicted when the non-respondents scored higher for 'number of shares owned by directors', 'number of options owned by directors', 'salary & bonuses' and 'remuneration committee'. The evidence is therefore contradictory and no distinction between respondents and non-respondents could be made in relation to their pecuniary benefits.

4.8.2 Financial Characteristics of Respondents and Non-Respondents

This section examines if non-respondents had certain financial characteristics, which were distinctly different from respondents. Several financial characteristics were selected. Profitability and sales were selected to represent corporate financial performance and corporate size respectively. Respondent companies with higher profit and sales figures are expected to be able to dedicate more financial resources to respond to the questionnaires. 'Number of employees' was also selected as an alternative measure of size, despite being a non-financial measure, and was used to measure managerial efficiency in terms of both profit and sales. Respondents were also expected to have more efficient managers who would be more willing to participate in the survey. There are different measures of managerial efficiency but it was decided to choose efficiency in terms of employees as employees form one of the most important stakeholder groups.

Table 4.11 revealed that the respondents had higher medians and considerably smaller coefficient of variations for sales and profit. In addition, respondents had higher efficiency ratios as compared to non-respondents. As shown in Table 4.11, sales per employees and profit per employees are both higher for the respondent companies than for the non-respondent ones, suggesting higher financial performance and efficiency of respondents.

TABLE 4.11 FINANCIAL CHARACTERISTICS OF RESPONDENTS AND NON-RESPONDENTS

	RESPONDENTS			NON-RESPONDENTS		
Financial Information	**Median (£'000)**	**Std dev (£'000)**	**CoVar %**	**Median (£'000)**	**Std dev (£'000)**	**CoVar %**
Sales 95	4,887,699	2,096,486	46	3,663,884	9,829,429	150
Profit 95	655,900	1,608,343	124	399,100	1,895,815	163
Profit per Employees 95	18.32	25.65	92	15.99	25.00	111
Sales per Employees 95	114.60	29.03	28	105.14	153.05	104

Notes: Std Dev stands for standard deviation, and CVar stands for Co-efficient of Variation.
The median values for the 'Number of Employees' of Respondents and Non-Respondents are 37,100 and 39,482.

The respondent companies also emerged to have smaller numbers of employees than the non-respondents. Considering that the degree of variation in the number of employees is noticeably higher for the non-respondents (i.e. 108% as compared to 51% for the respondents), the median values are still lower for the respondents than for the non-respondents. This implies that companies who were not interested to participate in the survey had a larger number of employees than companies who willingly participated.

With higher sales and profit figures, coupled with, a smaller number of employees, respondent companies had used their employees more efficiently in generating profit as well as selling their products and services (see Table 4.11). These companies had also scored higher in terms of non-governance scores. Financial strength is clearly one of the major reasons that explains why respondents were willing to participate in the survey. In addition, smaller number of employees could be regarded as another reason why respondent companies had disclosed more information on issues related to employees (i.e. 'discrimination and equal opportunity' as shown in Table 4.9). Conversely, larger number of employees and weaker financial resources (e.g. lower profits) were the main characteristics of non-respondents. In a study by Watson (1997), empirical evidence suggested that companies with larger number of employees have more underpaid employees, and hence fail to deliver high level of employment benefits to their employees. The implication of Watson's finding is in line with the finding of this study where non-respondents were found to have lower employees' share ownership than respondents' did.

4.9 Application of Statistical tests to Distinguish Between the Financial and Non-Financial Characteristics of Respondents and Non-Respondents

In this section two statistical tests are carried out to probe if financial or non-financial characteristics of companies could distinguish between the two groups of respondents. These financial and non-financial characteristics of respondents and non-respondents were the same as the ones selected for sections 4.8.1 and 4.8.2.

4.9.1 T-test for Independent-Samples for Financial Characteristics

In order to investigate whether corporate financial characteristics are associated with companies' decision to take part in the survey 't-test for independent samples' was carried out. The independent-samples' t-test compares whether the mean values of two different groups are the same[73]. The results revealed that there were not significant differences between the corporate characteristics such as sales, total number of employees, and profit of respondents and non-respondents (see Appendix 4H).

4.9.2 Mann-Whitney Test for Non-Financial Scores

To test whether there were any differences between non-financial information scores of respondents and non-respondents, Mann-Whitney test was used. Mann-Whitney test is the alternative non-parametric test to the independent-samples t-test[74]. The results (shown in Appendix 4I) showed that there was no difference between the governance, non-governance and total scores of respondents and non-respondents.

4.9.3 Logit Analysis

It could be the case that companies with a combination of financial or non-financial characteristics decided not to co-operate with the survey. In order to investigate whether this was the case, a combination of financial and non-financial characteristics were selected (see Table 4J, Appendix 4J).

Companies with larger numbers of employees were expected to be less interested in the issues related to employees (i.e. the issues mainly addressed in the questionnaire) and

[73] Independent-sample t-test is computed the same way as the ANOVA test that was explained in *section 4.6*. The only difference is that independent-sample t-test is carried out for two groups whereas ANOVA test is carried for more than two groups.

therefore less co-operation was expected of them. At the same time, companies with larger sales and profit figures were expected to be more co-operative with the survey. Also, those companies that efficiently used their employees in generating profit and sales were expected to respond to the questionnaire survey.

Based on the findings of section 4.8.1, it was expected that companies with low non-governance scores were unwilling to co-operate in the survey. Although the questionnaire did not consider any of the issues related to the governance structure of companies, the findings of the previous chapter suggested that governance and non-governance scores were correlated in 1995. It would be, therefore, reasonable to expect that companies with lower governance scores would also be unlikely to respond to the survey.

Given the nominal nature of the response variable and the ordinal nature of the financial variables, a model that was able to use both types of data was required. It was, therefore, decided to use logit analysis as it allowed the simultaneous use of nominal and ordinal variables. In logit analysis, a regression model which is used to estimate the probability of an event occurring or not, i.e. responding or non-responding. The model is written as:

$$Prob(event) = P = \frac{e^{Z}}{1 + e^{Z}} \qquad (1)$$

Equation (1) represents what is known as the (cumulative) logistic distribution function. And Z is the linear combination and is as follows:

---

[74] Mann-Whitney test is computed exactly the same way as the Kruskal Wallis's test that was explained in *section 4.6*. The only difference is that Mann-Whitney test is used for two groups whereas Kruskal Wallis's test is used for more than two groups.

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n$$

Where,

β_n = coefficients estimated from the data,
X_n = independent variables (in this case the percentage change in the performance measures)
e = the base of natural logarithms

Variable Z ranges from $-\infty$ and $+\infty$, and P ranges between 0 and 1, where P is non-linearly related to Z. If P represents the probability of responding, as given by equation (1), then (1- P) is the probability of not responding and it is shown below as:

$$1 - P = \frac{1}{1 + e^Z} \tag{2}$$

The above equation can be re-written as:

$$\frac{P}{1 - P} = \frac{1 + e^Z}{1 + e^{-Z}} = e^Z \tag{3}$$

P/(1-P) is simply the odds ratio in favour of responding to the questionnaire (i.e. the ratio of the probability that a company will respond to the questionnaire to the probability that it will not respond to the questionnaire). Taking the natural log of the odds ratio results in linear Z,

$$\begin{aligned} L = \ln\left(\frac{p}{1-p}\right) &= Z \\ &= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n \end{aligned}$$

Where

P = probability of responding
β_n = coefficients estimated from the data,
X = independent variables (in this case the percentage change in the performance measures)

Logistic regression estimates the parameters of the model using the maximum likelihood method.

The analysis was run in two different stages. Firstly, the model simply included the non-financial scores as independent variables. In the second stage, financial characteristics were included in the regression model in addition to non-financial scores to see if this gave a greater goodness of fit. No significant improvement was observed and none of the above combinations gave a significant model (the results are shown in Table 4J in Appendix 4J). The overall results indicated that neither the financial nor the non-financial characteristics of companies were determining factors in companies' decisions to participate in the survey.

4.10 CONCLUSION

This chapter began by providing discussion on the methodological issues and arguments as which methods were most suited to conduct investigation on the research questions of this research project. This was done in section 4.2 where different methodologies in social sciences were discussed and explored. It was argued that the research methodology adopted in this study fell in the fields of positivist and deductive approaches. It was argued that deductive approach was selected as the research questions were developed from the existing literature. In addition, the research methodology was argued to be located within the field of positivism as it relies on empirical findings rather than the opinions of individuals or groups in society to answer the research questions. It was also argued that the methodology adopted in this research project is undoubtedly an applied one, as it was decided to use data gathering and analysis techniques to answer research questions.

In section 4.3, it was illustrated why content analysis and postal questionnaires were selected as the appropriate methods of data collection for this research project. While content analysis is used to gather data that can be analysed to answer the first key research question (i.e. whether there were any associations between corporate characteristics and the level of non-financial information disclosed), the postal questionnaires were decided to be the appropriate method to gather data for the second key research question (i.e. the state stakeholder dialogue between UK companies and their stakeholder groups). It was also contended that the two methods were selected after considering the limitations that were imposed on the research project. For instance, as there was only one coder (i.e. the author) indexing which is the simplest form of content analysis was argued to produce the most reliable outcomes.

In section 4.4, discussion was presented on the choice of data sources. It was argued that for the content analysis, annual reports of the Top 100 UK companies are used as the main data source. Several reasons were stated for this choice among which annual reports being the main corporate document can be regarded as the most important reason. It was decided to select the Top 100 UK companies as they represented the major changes among UK companies.

In the case of the questionnaire survey, it was decided to send questionnaires to three groups: company secretaries, investors and employees. As the questionnaires were aiming to assess the state of stakeholder dialogue between UK companies and their stakeholder groups, it was important to selected companies and two stakeholder groups to be able to view the state of stakeholder dialogue from different perspectives. Institutional investors and trade union representatives were selected to present investors and employees, respectively. Trade unions were decided to be the best representatives of employees who could be approached and would provide responses with the lowest possible bias. The responses to the questionnaires from each group were also analysed in this section.

In section 4.5, evidence was produced on the level of non-financial information disclosed by the UK companies in three years: 1985, 1990 and 1995. Having observed evidence on the rising level of non-financial information, it was argued that it was possible to proceed with this research project. The findings from this section clearly showed that the level of non-financial information disclosed by UK companies had risen considerably from 1985 to 1995. This rise was observed for both the governance and non-governance indices. This section provided insight into the increasing level of disclosure for different information categories. This section was followed by section 4.6 where different methods of data analysis were discussed. It was decided to use Spearman rank correlation and Kruskal-Wallis test as the main statistical tests for the analysis of data gathered for the investigation of the first key research question (i.e. to examine the associations between corporate characteristics and the level of non-financial information disclosed).

In section 4.7, questionnaire design was discussed to explain how each question was aimed at addressing different aspects of stakeholder dialogue which were highlighted by research questions 5 and 6. It was illustrated how different questions were posed and exactly which aspects of stakeholder dialogue they were trying to address. In the case of postal questionnaires, it was argued that most of the correspondents were not easy to approach and hence it was not possible to hold interviews with them. For instance, it was possible to send questionnaires to trade union representatives only once. Trade unions who kindly agreed to co-operate in the survey were far too busy to send out a pilot questionnaire. This also lead to questionnaires being sent out only once.

The non-financial and financial characteristics of respondents and non-respondents were considered in section 4.8 to find out if they were differences in the non-financial characteristics of the two groups. The non-financial characteristics were measured in terms of non-financial information categories disclosed by companies. The findings suggested that the respondents had higher non-governance scores than the non-respondents did. Further analysis showed that, for instance, many of the non-respondents were from heavily regulated 'Food Producer' industries where companies appeared to disclose more information on 'working conditions' as required by *Health and Safety Executives*. Despite many of these companies divulging information on both 'health & safety' and 'working conditions' they explicitly stated their unwillingness to respond to the questionnaires. This finding raised the issue of the quality of non-governance information that companies disclose in the absence of any regulatory or statutory requirements to ensure the quality of the disclosed non-governance information. In the case of non-governance information no significant difference was observed between respondents and non-respondents. The introduction of the Cadbury code of best practice followed by a series of regulatory recommendations on governance issues was regarded as one of the main reasons for this observation.

The financial characteristics were measured in terms of sales, profit and efficiency (i.e. generation of sales and profit per employee). It was found that respondents were generally in a much better financial position than the non-respondents were. However, the results for statistical tests (shown in section 4.9) revealed no significant statistical differences between the groups of respondents and non-respondents.

CHAPTER 5 ANALYSIS OF NON-FINANCIAL INFORMATION DISCLOSURE – EMPIRICAL EVIDENCE I

5.1 INTRODUCTION

This chapter focuses on the empirical investigation of the first key research question, using content analysis in order to find out "whether companies disclose non-financial information to legitimise their corporate behaviours to their stakeholder groups?"

Investigation is carried out by seeking to gather empirical evidence on supporting research questions 1 to 4, presented in *Chapter 3*. *Supporting research questions 1, 2, 3* and *4* focus on examining the significance of association of non-financial information disclosure with corporate characteristics. These characteristics are: industrial affiliation, corporate size, corporate growth rate and different aspects of corporate performance.

For each supporting research question, investigation is carried out using the relevant techniques that were discussed in *Chapter 3*. The four supporting research questions are investigated in sections 5.2, 5.3, 5.4 and 5.5. Each section comprises of two sub-sections. In the first sub-section, entitled 'descriptive analysis', empirical evidence is presented in different formats (e.g. basic statistics, cross-tabulation and statistical tests). In the second sub-section, entitled 'analytical discussion', the results are analysed in order to answer the relevant supporting question, where each question is answered in terms of the three indices (i.e. total index, non-governance index and governance index) for each of the three years under investigation (i.e. 1985, 1990 and 1995).

Section 5.6 presents a summary of the empirical findings and links the findings to the previous literature. The chapter concludes in section 5.7, where the overall results for all of the four supporting research questions are used to answer the first key research question.

5.2 INDUSTRIAL AFFILIATION AND NON-FINANCIAL INFORMATION DISCLOSURE

This section investigates the first supporting research question which is presented as:

> *"Are there any associations between **industrial affiliation** and the level of non-financial information disclosed by the major UK companies?"*

As discussed in *Chapter 4*, many researchers argue that the level of non-financial information disclosure depends on the type of the industry to which a company belongs (Cowen, Ferrier and Parker, 1987; Gul, Andrew and Teoh, 1984; Kelly, 1979; Ingram, 1978; and many other studies that were shown in Table 3.6 in *Chapter 3*). Furthermore, stakeholder groups in one industry may impose common demands and pressures on companies in that industry. While on the other hand, different industries are expected to attach varying degree of importance to each stakeholder group.

5.2.1 Descriptive Analysis

In order to be able to carry out empirical investigation, companies are classified into five main industrial sectors (and 23 sub-sectors) using FT-SE Actuaries Industry Classification (see Appendix 5A - Table 5A, Columns INDUST, CINDUST and A).

5.2.1.1 Basic Statistics

Table 5.1 presents the mean values of non-financial scores for companies in different industries as well as the coefficient of variation of non-financial information scores within each industrial category.

TABLE 5.1 INDUSTRIAL CATEGORIES AND SUMMARY STATISTICS

	Tsc85		NGsc85		Gsc85	
Industrial Categories	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)
A. Mineral Extraction	0.43	147	0.67	173	0.18	138
B. General Industries	0.16	75	0.11	150	0.22	53
C. Consumer Goods	0.23	57	0.17	103	0.29	48
D. Services	0.20	48	0.13	115	0.27	56
E. Utilities	0.27	62	0.20	141	0.35	16
	Tsc90		NGsc90		Gsc90	
Industrial Categories	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)
A. Mineral Extraction	0.47	29	0.33	69	0.61	7.9
B. General Industries	0.42	32	0.35	66	0.48	38
C. Consumer Goods	0.42	30	0.41	47	0.43	40
D. Services	0.39	35	0.34	69	0.45	21
E. Utilities	0.51	53	0.51	113	0.52	5
	Tsc95		NGsc95		Gsc95	
Industrial Categories	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)
A. Mineral Extraction	0.70	11	0.67	23	0.74	6
B. General Industries	0.61	19	0.54	42	0.69	12
C. Consumer Goods	0.61	19	0.56	32	0.65	65
D. Services	0.58	26	0.52	45	0.64	20
E. Utilities	0.64	15	0.70	20	0.58	9

Notes: FT-SE Actuaries Industry Classification Definitions was used for industrial classification (Stock Exchange Yearbook, 1994-95).
Tsc stands for total non-financial scores, NGsc stands for non-governance scores, and Gsc stands for governance scores. Coeff of Var stands for coefficient of variation.

<u>1985</u>

The results suggest that the total non-financial information scores for both 'mineral extraction' and 'utilities' industries were the highest scores in 1985, whilst companies in 'general' and 'services' industries scored the lowest in the same year.

When the total index was broken down into non-governance and governance indices, the difference between the highest and the lowest non-governance scores (i.e. 0.67 - 0.11 = 0.56) was considerably larger than the difference between the highest and the lowest governance scores (i.e. 0.35 - 0.18 = 0.17). This suggests that there were more companies from different industrial groups disclosing differing levels of governance information. Apart from the coefficient of variation for the 'mineral extraction' industry, the coefficient of variation of each industrial group was smaller for the governance scores than for the non-governance scores, supporting the earlier presumption that most UK companies attached similar importance to the disclosure of governance information regardless of their industrial affiliations.

1990

By 1990, the overall level of non-financial information disclosure had risen for all industries with lower values of coefficient of variation, indicating that more companies were disclosing non-financial information relative to 1985. The results show that the governance scores of companies in all industries were higher than their non-governance scores and the values of coefficient of variation were lower for governance scores than for non-governance scores.

The difference between the highest and the lowest non-governance scores was almost similar to that of 1985 (e.g. 0.51-0.33=0.18 in 1990 relative to 0.17 in 1985). Companies in the 'Utility' industries, which had major new entrants in the newly privatised gas distribution (e.g. British Gas Plc) and electricity (e.g. PowerGen Plc and National Power Plc) sub-sectors, had the highest non-governance scores (i.e. 0.51). These new entrants could be regarded as the reason for the higher non-governance scores of these industries relative to the other four industrial groups, which had relatively similar non-governance scores.

1995

In 1995, further increase was observed in the total scores of companies in all industries with even lower values of the coefficient of variation in comparison to 1990. Apart from the 'Utility' industry, the governance scores of all other four industries were higher than their non-governance scores.

The non-governance scores of both 'Utilities' and 'Mineral Extraction' industries were higher than the other three industries. This could be due to the higher pressures for the disclosure of non-governance information within the 'Utilities' industry. At the same time, the lower values of coefficient of variation illustrated a wider spread of companies across industries with higher levels of both non-governance and governance information.

5.2.1.2 Cross-Tabulation

While the previous section presented basic statistics, this section presents the difference between the means of non-financial information scores for different industries using cross-tabulation. The five industrial categories were cross-tabulated over ten categories of non-financial information scores. The cross-tabulation tables, (Tables 5.2, 5.3 and 5.4), present a spread of the companies from various industrial backgrounds across non-financial information scores categories.

The cross-tabulation of total scores against industrial categories, shown in Table 5.2, showed that companies from certain industries (e.g. 'General Industries' and 'Consumer Goods') disclosed a slightly higher level of non-financial information in 1985. But in general cross-tabulations of industrial categories against total scores did not provide enough grounds to discuss any potential reason. It was, therefore, decided to cross-tabulate industrial categories against non-governance and governance scores.

Cross-tabulation of non-governance scores is shown in Table 5.3. The evidence reveals that in both 1985 and 1990, companies from certain industries (e.g. 'General industries', 'Consumer Goods' and 'Services' in 1985, and 'Services' and Utilities' in 1995) had achieved higher non-governance scores than companies in other industries. In 1995, there appeared to be an even spread for different industries across non-governance categories, suggesting that companies in different industries disclosed similar levels of non-governance information.

In the case of governance scores, the cross-tabulation table (see Table 5.4) shows that a few companies appeared to have scored higher in 1985 and 1990. For instance, in 1985 a few companies in 'Service', 'Consumer Goods' and 'Mineral Extraction' had scored higher than companies in other industries. And in 1990, a few companies in 'General Industries' and 'Consumer Goods' had scored higher than companies in other industries. In 1995, companies from different industries appeared to have similar governance scores.

TABLE 5.2 CROSS-TABULATION OF INDUSTRIAL CATEGORY AGAINST TOTAL INDEX

TSc85	Industrial Category					
Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
0.0 - 0.099	2 3.1	8 12.5	2 3.1	2 3.1		14 21.9
0.1 - 0.199		8 12.5	8 12.5	6 9.4	1 1.6	23 35.9
0.2 - 0.299	1 1.6	3 4.7	2 3.1	7 10.9		13 20.3
0.3 - 0.399	1 1.6	2 3.1	3 4.7	4 6.3	1 1.6	11 17.2
0.4 - 0.499		1 1.6	2 3.1			3 4.7
0.5 - 0.599						
0.6 - 0.699						
0.7 - 0.799						
0.8 - 0.899						
0.9 - 1.00						
Column Total	4 6.3	22 34.4	17 26.5	19 29.7	2 3.2	64 100

TSc90	Industrial Category					
Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
0.0 - 0.099						
0.1 - 0.199		3 4.1		1 1.4		4 5.5
0.2 - 0.299		2 2.7	3 4.1	3 4.1		8 11.0
0.3 - 0.399	2 2.7	7 9.6	3 4.1	7 9.6	1 1.4	20 27.4
0.4 - 0.499	3 4.1	9 12.3	6 8.2	5 6.8	1 1.4	24 32.9
0.5 - 0.599		5 6.8	4 5.5	1 1.4	1 1.4	11 15.1
0.6 - 0.699	1 1.4		1 1.4	2 2.7		4 5.5
0.7 - 0.799		1 1.4			1 1.4	2 2.7
0.8 - 0.899						
0.9 - 1.00						
Column Total	6 8.2	27 37.0	17 23.3	19 26.0	4 5.5	73 100

TSc95	Industrial Category					
Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
0.0 - 0.099						
0.1 - 0.199						
0.2 - 0.299			1 1.4	1 1.4		2 2.8
0.3 - 0.399				1 1.4		1 1.4
0.4 - 0.499		4 5.6		2 2.8		6 8.5
0.5 - 0.599		6 8.5	6 8.5	5 8.5	1 1.4	18 25.4
0.6 - 0.699	2 2.8	10 14.1	8 11.3	6 8.5	2 2.8	28 39.4
0.7 - 0.799	3 4.2	4 5.6	2 2.8	2 2.8	1 1.4	12 16.9
0.8 - 0.899		1 1.4	1 1.4	1 1.4	1 1.4	4 5.6
0.9 - 1.00						
Column Total	5 7.0	25 35.2	18 25.4	18 25.4	5 7.0	71 100

Notes: TSc stands for total scores.

TABLE 5.3 CROSS-TABULATION OF INDUSTRIAL OF INDUSTRIAL CATEGORY AGAINST NON-GOVERNANCE INDEX

	Industrial Category						
	Count Total %	**Mineral Extraction**	**General Industries**	**Consumer Goods**	**Services**	**Utilities**	**Row Total**
NGSc85	**0.0 - 0.099**	2 3.1	13 20.3	6 9.4	6 9.4	1 1.6	28 43.8
	0.1 - 0.199		2 3.1	3 4.7	7 10.9		12 18.7
	0.2 - 0.299	2 3.1	2 3.1	3 4.7	2 3.1		9 14.0
	0.3 - 0.399		2 3.1	3 4.7			5 7.8
	0.4 - 0.499		2 3.1		2 3.1	1 1.6	5 7.8
	0.5 - 0.599		1 1.6	2 3.1	2 3.1		5 7.8
	0.6 - 0.699						
	0.7 - 0.799						
	0.8 - 0.899						
	0.9 - 1.00						
	Column Total	3 6.2	22 34.4	17 26.6	19 29.7	2 3.1	64 100

	Industrial Category						
	Count Total %	**Mineral Extraction**	**General Industries**	**Consumer Goods**	**Services**	**Utilities**	**Row Total**
NGSc90	**0.0 - 0.099**	1 1.4	3 4.2		3 4.2		7 9.8
	0.1 - 0.199		6 8.5	3 4.2	4 5.6	1 1.4	14 19.7
	0.2 - 0.299	1 1.4	2 2.8	1 1.4			4 5.6
	0.3 - 0.399	1 1.4	3 4.2	2 2.8	4 5.6		10 14.1
	0.4 - 0.499	1 1.4	4 5.6	5 7.0	5 7.0	1 1.4	16 22.5
	0.5 - 0.599	1 1.4	6 8.5	4 5.6	1 1.4		12 16.9
	0.6 - 0.699		1 1.4	1 1.4	1 1.4		3 4.3
	0.7 - 0.799		1 1.4				1 1.4
	0.8 - 0.899		1 1.4	1 1.4			2 2.8
	0.9 - 1.00				1 1.4	1 1.4	2 2.8
	Column Total	5 7.1	27 38.1	17 23.9	19 26.6	3 4.3	71 100

	Industrial Category						
	Count Total %	**Mineral Extraction**	**General Industries**	**Consumer Goods**	**Services**	**Utilities**	**Row Total**
NGSc95	**0.0 - 0.099**						
	0.1 - 0.199		2 2.8	1 1.4	1 1.4		4 5.6
	0.2 - 0.299				1 1.4		1 1.4
	0.3 - 0.399		1 1.4		5 6.9		6 8.3
	0.4 - 0.499		5 6.9	2 2.8	1 1.4		8 11.1
	0.5 - 0.599	1 1.4	4 5.6	7 9.7	1 1.4		13 18.1
	0.6 - 0.699	1 1.4	7 9.7	5 6.9	6 8.3	3 (60.0) 4.2	22 30.6
	0.7 - 0.799	1 1.4	2 2.8				3 4.2
	0.8 - 0.899	1 1.4	3 4.2	2 2.8	3 4.2	1 (20.0) 1.4	10 13.9
	0.9 - 1.00	1 1.4	1 1.4	1 1.4	1 1.4	1 (20.0) 1.4	5 6.9
	Column Total	4 7.0	25 34.7	18 25.0	19 26.4	5 7.0	72 100

Notes: NGSc stands for non-governance scores.

TABLE 5.4 CROSS-TABULATION OF INDUSTRIAL CATEGORY AGAINST GOVERNANCE INDEX

	Industrial Category						
	Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
GSc85	0.0 - 0.099	2 3.1	8 12.5	3 4.7	4 6.3		17 26.6
	0.1 - 0.199		2 3.1		1 1.6		3 4.7
	0.2 - 0.299		6 9.4	4 6.3	6 9.4		16 25.0
	0.3 - 0.399	1 1.6	6 9.4	7 10.9	5 7.8	2 3.1	21 32.8
	0.4 - 0.499	1 1.6		3 4.7	2 3.1		6 9.4
	0.5 - 0.599				1 1.6		1 1.6
	0.6 - 0.699						
	0.7 - 0.799						
	0.8 - 0.899						
	0.9 - 1.00						
	Column Total	4 6.2	22 34.4	17 26.6	19 29.7	2 3.1	64 100

	Industrial Category						
	Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
GSc90	0.0 - 0.099		2 2.7				2 2.7
	0.1 - 0.199			1 1.4			1 1.4
	0.2 - 0.299		1 1.4	3 4.1	1 1.4	1 1.4	6 8.1
	0.3 - 0.399		5 6.8	3 4.1	4 5.4		12 16.2
	0.4 - 0.499	1 1.4	6 8.1	3 4.1	5 6.8		15 20.3
	0.5 - 0.599	4 5.4	8 10.8	5 6.8	10 13.5	3 4.1	30 40.5
	0.6 - 0.699	1 1.4	3 4.1	1 1.4			5 6.8
	0.7 - 0.799		1 1.4				1 1.4
	0.8 - 0.899		1 1.4	1 1.4			2 2.7
	0.9 - 1.00						
	Column Total	6 8.2	27 36.5	17 23.0	20 27.0	4 5.4	74 100

	Industrial Category						
	Count Total %	Mineral Extraction	General Industries	Consumer Goods	Services	Utilities	Row Total
GSc95	0.0 - 0.099						
	0.1 - 0.199						
	0.2 - 0.299						
	0.3 - 0.399				2 2.8		2 2.8
	0.4 - 0.499		1 1.4	1 1.4			2 2.8
	0.5 - 0.599		1 1.4	3 4.2	3 4.2	1 1.4	8 11.3
	0.6 - 0.699	3 4.2	13 18.3	10 14.1	9 12.7	3 4.2	38 53.5
	0.7 - 0.799	2 2.8	10 14.1	4 5.6	3 4.2	1 1.4	20 28.2
	0.8 - 0.899				1 1.4		1 1.4
	0.9 - 1.00						
	Column Total	5 7.0	25 35.2	18 25.4	18 25.4	5 7.0	71 100

Notes: GSc stands for governance scores.

In the above cross-tabulation tables, the number of cells with the expected number of less than 5 companies was well above 20%. This meant that statistical tests could not be carried out unless the number of cells with an expected number of less than 5 companies was well below 20%. To overcome this problem, both the non-financial scores and the industrial categories were re-categorised into a smaller number of categories. This time, the industrial categories were classified into 2 main categories of 'industrial' and 'non-industrial' categories (See Appendix 5A – Table 5A, Column B). These two major categories were then used for all the three years under investigation. Non-financial scores were also re-categorized. The cross-tabulation tables showed that as the level of non-financial information increased from 1985 to 1995 (i.e. Figure 4.5), the spread of companies in different industrial categories shifted to higher levels of non-financial information scores. Hence, different re-categorization of non-financial scores was required for each of the three years under investigation (see Appendix 5B, Table 5B).

5.2.1.3 Spearman Rank Correlation and Kruskal Wallis 1-Way ANOVA Test

Having re-categorised both non-financial scores and industrial categories, statistical tests were conducted to probe significant association between corporate characteristics and non-financial information disclosure.

The results for Spearman Rank correlation and Kruskal Wallis tests (shown in Table 5.5) showed that the only observable significant associations between the industrial classification and total scores were in 1985. No significant link was found for either 1990 or 1995. This was not, however, the case when the total non-financial index was broken down into non-governance and governance indices.

Significant associations were found between industrial categories and governance scores in both 1985 and 1995. No significant association was found between industrial classification and either of the categories in 1990. In 1995, the governance scores, which had risen to an even higher level relative to 1990, was found to be associated with industrial categories, suggesting that companies in certain industries had higher governance scores than companies in other industries.

TABLE 5.5 SPEARMAN RANK CORRELATION AND KRUSKAL-WALLIS 1-WAY ANOVA TEST

Non-Financial Scores	Spearman Rank Correlation	Sig Level	Kruskal-Wallis Chi-square	Sig Level
Tsc85	**0.29**	**0.02**	**5.10**	**0.02**
Tsc90	-0.06	0.59	0.29	0.59
Tsc95	-0.15	0.20	1.66	0.20
NGsc85	0.17	0.17	1.87	0.17
NGsc90	-0.06	0.64	0.23	0.63
NGsc95	-0.10	0.43	0.64	0.42
Gsc85	**0.22**	**0.07**	**3.13**	**0.08**
Gsc90	-0.06	0.63	0.23	0.63
Gsc95	**-0.26**	**0.05**	**4.81**	**0.03**

As for the non-governance scores, no significant association was found with industrial categories in either of the three years. This was despite the continuous rise in the non-governance scores from 1985 to 1995 and the earlier expectations that were discussed in section 3.3.1.

5.2.2 Analytical Discussion

The results found in this section provides answers to the first supporting research question, which is: "*whether there was any association between industrial affiliation and the level of non-financial information disclosure?*". The overall evidence used in answering this question is presented below:

	Total Scores	Non-Governance Scores	Governance Scores
1985	✓	✗	✓
1990	✗	✗	✗
1995	✗	✗	✓

'✓' denotes association between industrial affiliation and non-financial information scores.
'✗' denotes no association between industrial affiliation and non-financial information scores.

The above summary shows that only three significant associations were observable for the first supporting research question. The three associations were between industrial categories and (i) total scores in 1985, and (ii) governance scores in 1985 and 1995.

Total Scores

Basic statistics showed that in 1985 and 1995 companies from certain industries reported higher levels of non-financial information than companies in other industries. For instance, companies in 'Mineral Extraction' and 'Utilities' industries were scoring the highest in 1985 and 1995. The two industries, which included 'Gas Distribution'[74], 'Electricity'[75] and 'Telecommunication'[76] as their sub-sectors, had a number of new entrants between 1985 and 1995. In the author's view, the new entrants can be regarded as the possible reason explaining why companies from these two industries had the highest total scores for 1985 and 1995. The new entrants were under scrutiny and pressure to be transparent about their decision making processes, which could affect their customers' welfare and interests.

While the cross-tabulation tables do not show that companies in any specific industry disclosed higher or lower levels of non-financial information, the statistical tests revealed significant association between the level of non-financial information and

[74] British Gas became a public limited company in December 1986.
[75] PowerGen (was a public company by 1989) and National Power (went public in March 1991).
[76] British Telecom became a public limited company on November 1984.

industrial affiliation in 1985. In comparison to 1985, neither the cross-tabulation tables nor any of the statistical tests provided any evidence to suggest that in 1990 and 1995 companies in certain industries had disclosed higher or lower levels of non-financial information than companies in other industries.

A potential reason for the lack of association in 1990 and 1995 could be rooted in the increasing level of non-financial information from 1985 to 1995 (shown in Figure 4.5). It is important to remember at this point that the indices used in this study picked up the overall rise in the level of non-financial information and did not measure the extent of non-financial information disclosed by companies (i.e. this was explained in section 3.3.1). This is an important point to consider when discussing non-financial information disclosure by companies in different industries, as one would expect that some companies disclose more information on certain aspects (e.g. non-managerial aspects) due to the nature of their operations. For instance, even though companies in 'Oil Integrated' sub-sector are expected to have extensive environmental reports in comparison to companies in 'Hotel and Leisure' industry, the index assigned a score of one to companies disclosing information on environmental issues regardless of the quantity of information being reported. Bearing this in mind, it can be argued that in 1985 when public awareness had not started to rise, only companies in certain industries were under pressure to disclose non-financial information. By 1990 and, subsequently, 1995, public awareness had already risen and companies in all industries were expected to report on different managerial and non-managerial issues.

To have better insight on the findings, the empirical findings for governance and non-governance indices are examined below.

Non-governance scores

According to the basic statistics, the highest scores were obtained for 'Mineral Extraction' industry in 1985 and for 'Utilities' industry in 1990 and 1995. Despite these observations, the statistical tests revealed no significant association between industrial affiliation and non-governance information disclosed in either of the three years. As it was discussed earlier, one potential reason could be due to the way the indices did not measure the extent of information disclosure and as the level of information disclosure increased, companies from all industries were disclosing information on all non-governance categories regardless of their industrial backgrounds. For instance, in a study by Hackston and Milne (1996), where the extent of social and environmental disclosure was measured, it was suggested that disclosures are higher for high profile industries[77].

The overall findings of this section are *not* in line with the findings of previous studies. Most previous studies, listed in Table 3.6, found association between certain social information items and industrial affiliation. For instance, Cowen, Ferreri and Parker (1987) observed evidence on the association between 'energy' and 'community' disclosures and industrial affiliation, Freedman and Jaggi (1988) found association between pollution control and industrial affiliation and Adams, Hill and Roberts (1995, 1998) presented evidence suggesting that industrial affiliation is associated with some environmental and some employee disclosures. Another point to consider here is the way this study measures the association with the overall non-governance scores and not for each information category included in the non-governance index. The non-

---

[77] For high profile industries, Hackston and Milne (1992) referred to Robert's (1992) definition according to which high profile industries had "... consumer visibility and, a high level of political risk, and concentrated, intense competition" (Roberts 1992: p605).

governance index that was used in this study included different types of non-managerial information ranging from 'environmental' to 'renewal of technology' information. Considering the diversity of non-financial information categories in the index, the results for non-governance scores imply that there was no particular industry that could be associated with the disclosure of a number of information categories included in the index. Considerable rise in the level of non-governance information from 1985 to 1995 (i.e. an average growth of 75% - shown in Figure 4.3) and the lack of association between non-governance scores and industrial background show that companies disclosed information on a variety of non-managerial issues regardless of their industrial backgrounds. Hence, despite the basic statistics presenting higher non-governance scores for some industries, statistical tests did not provide any evidence to suggest that companies used non-governance information to legitimise their behaviours.

Governance Scores

In the case of governance scores, the evidence suggested association with the industrial backgrounds in 1985 and 1995. An implication of this finding is that companies in certain industries paid more attention to their investors. Investors are commonly concerned with the rate of return on their investment and they need to be sure that top managers act in their best interests. Despite the earlier expectations and the findings of the earlier studies[78] that companies from all industries would disclose similar levels of governance information after the introduction of the Cadbury code of best practice in 1992, it was interesting to find associations between governance scores and industrial affiliation in 1995. This finding was in line with the overall finding of a study by

[78] Conyon and Mallin (1995) found that most of the major UK companies had complied with the Cadbury code of best practice.

Buckland and Dobble (1995) who found that many companies preferred not to comply with the Cadbury code.

It is also worth noting that between 1985 and 1995, 13 companies were born and entered into the market (shown in Table 5.6). Some of these 13 companies were in heavily regulated industries such as 'Electricity' and 'Gas Distribution' and therefore under scrutiny by their investors. 'Gas Distribution' sub-sector, classified under 'Mineral Extraction' industry, and 'Electricity' sub-sector, classified under 'Utilities' industry, were regulated by the office of gas supply (OFGAS) and the office of electricity regulation (*offer*), respectively. Under the Gas Act 1986 and the Electricity Act 1989, OFGAS and *offer* were aiming to promote competition so that they could protect customers' interests. OFGAS, for instance, was committed to the principle of transparency by committing themselves to putting into the public domain information that the regulated companies considered to being commercially confidential (Office of Gas Supply, 1987). In the author's view, it could have been the case that the new entrants were expected to comply with many regulations and the disclosure of information on governance structures was one way of assuring their investors that efficient managerial structures were in place to run the company in highly regulated industries.

The requirement to comply with various regulations in 'Electricity' sub-sector can also be used to explain why basic statistics in section 5.2.1.1 showed that companies in 'Utilities' industry were found to have higher non-governance than the governance scores in 1995, while companies in all other industries had higher governance than non-governance scores. Highly regulated 'Electricity' sub-sector is a good example of how regulations meant higher level of disclosure.

TABLE 5.6 COMPANIES BORN AFTER 1985

COMPANY	Date of Entry	Industrial Sector	Industrial Sub-sectors
1. Associated British Foods Plc	July 1994	Consumer Goods	Food Producers
2. Berisford International Plc	December 1989	General Industries	Merchanding
3. Booker Plc	July-86	Consumer Goods	Food Producers
4. British Gas Plc	December-86	Mineral extraction	Oil Integrated
5. British Steel Plc	December-88	General Industries	Engineering
6. Cortlauds Plc	January-90	General Industries	Textile
7. GKN Plc	June-86	General Industries	Engineering
8. Hanson Plc	December-87	General Industries	Diversified Industries
9. National Power Plc	March-91	Utilities	Electricity
10. Powergen Plc+	March-91	Utilities	Electricity
11. Wellcome Plc	February-86	General Industries	Pharmaceutical
12. Wolseley Plc	April-86	General Industries	Merchanding
13. Zeneca Plc	June-92	General Industries	Pharmaceutical

*In January 1995, an offer was made for the whole of the issued share capital of the company by Glaxo Plc. Offer was received in March 1995. Wellcome Plc was included in the sample of this study for 1990 only.

+ Powergen was launched as a Public Limited Company owned by the government in March 1990. 60% of Powergen shares were sold to public in May 1991.

In the author's view, even though the indexing method used in this study did not measure the extent of non-financial information disclosure and non-governance index encompassing different non-managerial issues (see Table 3.4 in *Chapter 3*), companies in 'Utility' industry appeared to be under lots of pressure and scrutiny and disclosed more non-governance information. This led companies to disclose higher levels of non-governance information to legitimise their actions by adopting one of the four strategies introduced by Lindblom C. K. (1994) (discussed in section 2.3.1). Companies could have disclosed governance information either to educate and inform their relevant public about the actual changes in their organization (i.e. Lindblom's C. K. first strategy), or to manipulate the perception of their relevant public by deflecting attention from issues of concern[79] (i.e. Lindblom's C. K. third strategy), or to change external expectations of their performance (i.e. Lindblom's C. K. fourth strategy). The second strategy introduced by Lindblom C. K. (1994) also applies here. Under the second strategy, companies may disclose governance information to change the perception of their relevant public without complying with the regulatory recommendations and requirements of their industries. In the case of the second strategy, the regulatory recommendations and requirements of their industries can be referred to as the issues of main concern.

Looking at the dates of the new entries, shown in Table 5.6, it is evident that many entries took place in the late 1980s. For this reason, Table 5.7 was drawn up to present the average size of companies that were already in the selected sample of the Top100 in terms of 'total number of employees', 'profit' and 'sales' figures relative to an average company in the industry and to make comparison between them and the new entrants in 1990.

For instance, Table 5.7 shows that Booker Plc entered the 'Food Producer' sub-sector in July 1986 and by the end of 1990, the company was considerably smaller in terms of 'total number of employees', 'profit' and 'sale' figures than the relevant industry averages. Hence, one would inevitably think that there were larger firms with competitive advantages to Booker plc in 'Food Procedure' industry. In addition, 'Food Producer' industry was highly regulated on 'Health and Safety' and 'Working Condition' (*Health & Safety Executive*, 2000). High competition and high regulatory requirements were two reasons that could determine company's financial success and having a sound managerial system (i.e. governance structure) was essential to ensure that Booker plc would do well under the circumstances.

---

[79] In the case of industrial affiliation, competition and regulatory requirements can be regarded as issues of concern.

Similar examples to Booker Plc can be observed in 'Merchandising' and 'Pharmaceutical' sub-sectors (shown in Table 5.7). In the case of 'Merchanding' sub-sector, Wolseley Plc and Berisford International Plc entered the market in April 1986 and December 1989, respectively. By the end of 1990, the average size between the two companies was still well below their industry average size in terms of 'total number of Employees', 'Profit' and 'Sales'. Once again, these new entrants could have focused on the disclosure of governance information to show that they had sound managerial structure so that they could be successful despite the fact that they were financially in disadvantaged positions.

Companies in 'Food Producer', 'Merchandising' and 'Pharmaceutical' industries are all indicative of companies being in the position of needing to project an image illustrating their strong managerial structures that would enable them to operate successfully. When the average managerial efficiencies of the new entrants and all companies in the sample are measured (shown in Table 5.7), it becomes evident that by 1990 the new entrants in 4 out of the 5 industries had performed considerably better than the average company in their industries. The only company whose managerial performance was poorer than the industry average was Wellocme Plc in the 'Pharmaceutical' industry. Wellcome plc was later on taken over by Glaxo plc in 1995.

In the author's view, companies operating in more regulated industries disclosed more information on their governance structures to project sound managerial structures with the ability to achieve compliance with regulations in competitive industries. In a way, this indicates that companies paid more attention to reassuring their investors rather than concentrating on disclosing financial information to their other stakeholders. This finding fits into the first dimension of the model introduced by Ullmann (1985), where companies are more likely to meet the information demands of their most powerful stakeholder groups (i.e. investors) (Freeman, 1984).

The findings of this section also showed that in 1990 all companies disclosed similar levels of non-financial information, both in terms of governance and non-governance information and regardless of their industrial backgrounds. In the author's view, by 1990 almost twice as many companies were disclosing non-financial information relative to 1985. A growth rate of almost 50% from 1985 to 1995 may be the reason why no association was found.

PAGE MISSING IN ORIGINAL

TABLE 5.7 STATISTICS ON NEW ENTRANTS AND INDUSTRY AVERAGES

Industrial Category	Total Number of Employees in 1990		Profit in 1990 (£'000)		Sales in 1990 (£'000)		Managerial Efficiency†		Names and Dates of New Entries♣
	Sample	New Entrant	Sample	New Entrant	Sample	New Entrant	Sample	New Entrant	
1. Diversified Industries	103,395	80,000	263,795	292,000	3,679,675	7,153,000	35.6	89.4	Hanson Plc - December 1987
2. Engineering	57,905	44,152	374,733	592,900	3,943,033	3,576,600	68.1	81.0	GKN Plc - June 1986 British Steel Plc - December 1988
3. Food producer	60,766	22,762	544,222	82,100	4,992,555	2,926,300	82.0	128.5	Booker Plc - July 1986 Associated British Foods Plc – July 1994
4. Merchanding	34,595	10,876	378,375	78,886	2,630,600	1,898,238	76.0	174.5	Wolseley Plc - April 1986 Berisford International Plc – December 1989
5. Pharmaceutical	31,327	18,853	768,350	614,200	2,854,000	983,800	91.0	52.2	Wellcome Plc – February 1986 Zeneca Plc – June 1992

Notes: Figures in the 'Sample' column represent average size of companies in the selected sample in 1990. In the 'New Entrant' column, the figures represent the average size of the new entrants when there were several entrants and represents the corporate size when there was only one new entrant in the industry. For each industry, the names of the new entrants together with the date of their entries into industry are shown.

† Managerial Efficiency is measured in terms of 'Turnover' ratio, which is computed by dividing sales by total number of employees.

♣ Financial data for entries after 1990 (e.g. Associated British Foods Plc in 1994 and Zeneca Plc in 1992) were not included for statistics on the new entrants.

5.3 Corporate Size and Non-Financial Information Disclosure

This section investigates the second supporting research question, which was phrased as:

> *"Are there any associations between **corporate size** and the level of non-financial information disclosed by the major UK companies?"*

The size of companies could be regarded as one of the potential reasons for the disclosure of non-financial information. As was discussed in *Chapter 3*, the common understanding in the literature is that larger companies disclose more non-financial information than smaller companies as they are more likely to be under scrutiny by the general public (Dierkes and Coppock, 1978; and Belkaoui and Karpik, 1989) (for more relevant literature see Table 3.6).

5.3.1 Descriptive Analysis

In order to examine if companies in different size categories disclosed different levels of non-financial information, descriptive analysis was carried out using basic statistics followed by cross-tabulation of size categories over different categories of non-financial scores. Finally, statistical test is carried out to examine if size categories are associated with non-financial information disclosure.

5.3.1.1 Basic Statistics

Table 5.8 presents the mean and coefficient of variation of non-governance, governance and total scores for each size category. The results indicated no significant observation for total scores in terms of mean and co-efficient of variations. According to the observations, larger companies did not appear to disclose considerably higher or lower levels of governance information in either of the three years. In the case of non-governance information, companies categorised as the largest ones had scored the highest (shown in grey-shaded cells). For instance, the largest companies had non-governance scores of 0.500, 0.909 and 0.700 in 1985, 1990 and 1995, respectively.

Overall, the summary of basic statistics did not show higher or lower levels of disclosure by any particular size category.

TABLE 5.8 SIZE CATEGORIES AND SUMMARY STATISTICS

	1985						1990						1995					
	NGSc85		GSc85		TSc85		NGSc90		GSc90		TSc90		NGSc95		GSc95		TSc95	
Size Categories	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)	Mean	Coeff of Var (%)
=< £0.099b	-	-	-	-	-	-	0.364	-*	-	-	0.182	-	0.600	0.289	0.692	0.111	0.646	0.19
£0.1b to £1.99b	0.064	1.271	0.259	0.668	0.161	0.551	0.384	0.703	0.434	0.122	0.409	0.303	0.500	-*	0.690	-*	0.595	-*
£1b to £1.499b	0.150	1.126	0.248	0.494	0.199	0.621	0.263	0.485	0.501	0.328	0.386	0.270	0.478	0.374	0.644	0.133	0.561	0.154
£1.5b to £1.999	0.146	1.237	0.290	0.498	0.218	0.907	0.433	0.540	0.459	0.264	0.446	0.239	0.434	0.487	0.675	0.083	0.563	0.173
£2.0b to £2.499b	0.133	1.475	0.257	0.675	0.195	0.554	0.408	0.527	0.495	0.324	0.451	0.388	0.529	0.389	0.673	0.196	0.601	0.260
£2.5b to £2.999b	0.167	1.249	0.333	0.266	0.250	0.247	0.303	0.797	0.481	0.146	0.392	0.355	0.675	0.222	0.692	0.157	0.684	0.171
£3.0b to £3.499b	0.167	1.249	0.205	0.573	0.186	0.807	0.182	0.707	0.476	0.220	0.329	0.263	0.620	0.289	0.723	0.095	0.672	0.154
£3.5b to £3.99b	-	-	-	-	-	-	0.500	0.899	0.375	0.471	0.438	0.716	0.575	0.219	0.643	0.093	0.609	0.111
£4.0b to £4.499b	-	-	-	-	-	-	0.450	0.278	0.394	0.422	0.422	0.184	0.594	0.256	0.679	0.115	0.636	0.138
£4.5b to £4.999b	-	-	-	-	-	-	0.403	0.442	0.476	0.218	0.440	0.265	0.569	0.509	0.621	0.199	0.595	0.291
£5b to £9.99b	-	-	-	-	-	-	0.352	0.527	0.455	0.677	0.404	0.312	0.600	0.333	0.608	0.144	0.604	0.119
£10b to £19.99b	0.157	1.030	0.220	0.740	0.188	-*	0.473	0.217	0.411	0.884	0.442	0.527	0.500	-*	0.769	-*	0.635	-*
£20b to £29.99b	0.000	-*	0.077	-*	0.038	-*	0.909	-*	0.417	-	0.663	-*	0.700	0.286	0.693	0.221	0.696	0.253
£30b or more	0.500	-*	0.231	-*	0.365	-*	-	-	-	-	-	-	-	-	-	-	-	-

Notes: Tsc stands for total non-financial scores, NGsc stands for non-governance scores, and Gsc stands for governance scores. Coeff of Var stands for coefficient of variation.

* There was only one observation in the given size category.

5.3.1.2 Cross-Tabulation

The cross-tabulation of corporate size against non-financial information indices (shown in Tables 5.9, 5.10 and 5.11) indicated the number of companies in each size category against different non-financial information indices. Tables 5.9, 5.10 and 5.11 present the cross-tabulation of corporate size over total, non-governance and governance scores, respectively. The cross-tabulation of the total scores over the size categories, shown in Table 5.9, did not reveal any significant pattern regarding the dispersion of companies in different size categories across different categories of total scores in either of the three years. The cross-tabulations clearly showed that companies from different size categories had scored within similar ranges in each of the three years. However, the cross-tabulation results began to tell a different story when the corporate size was cross-tabulated over the non-governance and governance scores.

Non-Governance Scores

In the case of non-governance score, the cross-tabulations indicated an increase in the spread of companies disclosing non-governance information over the period between 1985 and 1995 (shown in Table 5.10). Patterns were observed for 1985 and 1995 for companies at the bottom and at the top ends of the size categories (i.e. companies ranked as small and as large). Looking at Table 5.10, in each of the two years, there are two shaded grey areas. The grey area on the left-hand side of the cross-tabulation table presents the spread of small companies and the shaded area on the right hand side presents the spread of large companies.

The important observations from the cross-tabulation table are summarised and shown below:

	Small Companies	Large Companies
NGSc85	Total number of small companies = 11 + 13 + 18 = 42 Total number of companies scoring between 20% to 60% = 2 + (2+1+1+2)+(2+2+1+1)=14 Percentage of small companies (14/42) = 33%	Total number of large companies = 7 + 1 + 1 = 9 Total number of large companies scoring between 20% to 60% = (2+1+1) + 1 = 5 Percentage of large companies (5/9) = 56%
NGSc95	Total number of small companies = 1 + 1 = 2 Total number of small companies scoring between 70% to 100% = 3+1+9+9 = 22 Percentage of small companies (2/22) = 9%	Total number of large companies = (3 + 2) + 2 +1 = 8 Total no. of large companies scoring between 70% to100% = 13+5+1 + 3 =22 Percentage of large companies (8/22) = 36%

As it is shown above, in 1985 there was a total number of 42 small companies out of which 14 companies scored between 0.20 and 0.60 (shown in Table 5.10 – the grey area on the left-hand side). This meant that 33% of small companies scored between 0.20 and 0.60. At the same time, the grey area on the right-hand side of Table 5.10 shows that there were 9 large companies. Out of these 9 large companies, 5 companies scored between 0.20 and 0.60. Hence, 56% of large companies scored between 0.20 and 0.60 as compared to only 33% of small companies scoring within the same range.

In 1995, the grey area on the left-hand side of the Table 5.10 showed that 2 out of a total of 22 small companies scored between 0.70 and 1.00. This made an overall 9% of small companies. As for the large companies, the grey-shaded area on the right-hand side of Table 5.10 shows that 8 of the 22 large companies scored between 0.70 and 1.00. This meant that 36% of large companies had non-governance scores of 0.70 or more as compared to only 9% of small companies.

The evidence for both 1985 and 1995 suggest that more large companies had disclosed high level of non-governance information in comparison to the number of small companies disclosing the same level of information.

Governance Scores

In contrast to non-governance information, different observations were made for governance scores. Cross-tabulation of governance scores over size categories is shown in Table 5.11. A summary of the cross-tabulation interpretation is shown below:

	Small Companies	Large Companies
GSc85	Total number of small companies = 12 + 18 = 30 Total number of small companies scoring 20% or more = (3+2+1+1+1) + (6+6+1) = 21 Percentage of small companies (21/30) = 70%	Total number of large companies = 7 + 1 + 1 = 9 Total number of large companies scoring 20% or more = (2 + 3 + 1) = 6 Percentage of large companies (6/9) = 67%

In 1985, the grey shaded area on the left hand side of the cross-tabulation shows that 70% of small companies, that is 21 of the 30 small companies, had governance scores of 0.20 or more. A similar percentage number of large firms were observed to score 0.20 or more. At the same time, the grey area on the right hand side of the cross-tabulation table shows that out of a total of 9 large companies, 6 companies had scored 0.20 or more. This meant that a similar percentage number of large companies (i.e. 67%) were found to score 0.20 or more in comparison to 70% of large companies.

In 1990, companies from all different size categories had an increase in their governance scores with most scores falling within the range of 0.30 to 0.60. There was a similar observation for 1995, when all companies had increased their governance disclosure even further and were all scoring similarly regardless of their size categories.

TABLE 5.9 CROSS-TABULATION OF COMPANIES SIZE AGAINST TOTAL INDEX

	Sales 1985														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30 b	
TSc85	0-0.099		2 3.2	4 6.3	2 3.2	3 4.8			2 3.2				1 1.6			14 22.2
	0.1-0.199		6 9.5	7 11.1	5 7.9		1 1.6	2 3.2	1 1.6							22 34.9
	0.2-0.299		2 3.2	3 4.8	2 3.2	2 3.2	1 1.6	1 1.6	2 3.2							13 20.6
	0.3-0.399		1 1.6	3 4.8	3 4.8		1 1.6		2 3.2					1 1.6		11 17.5
	0.4-0.499			1 1.6	1 1.6	1 1.6										3 4.8
	0.5-0.599															
	0.6-0.699															
	0.7-0.799															
	0.8-0.899															
	0.9-1.00															
	Column Total		11 17.5	18 28.6	13 20.6	6 9.5	3 4.8	3 4.8	7 11.2				1 1.6	1 1.6		63 100

	Sales 1990														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30 b	
TSc90	0-0.099															
	0.1-0.199	1 1.4		1 1.4		1 1.4	1 1.4									4 5.6
	0.2-0.299		1 1.4	1 1.4				2 2.9	1 1.4		1 1.4	1 1.4	1 1.4			8 11.1
	0.3-0.399		2 2.9	4 5.7	4 5.7	1 1.4	2 2.9	4 5.7		1 1.4	1 1.4	1 1.4				20 27.8
	0.4-0.499		1 1.4	4 5.7	5 7.1	2 2.9	2 2.9	1 1.4		3 4.3	5 7.1					24 33.3
	0.5-0.599			1 1.4	2 2.9	2 2.9	1 1.4				1 1.4	2 2.9				10 13.9
	0.6-0.699								1 1.4		1 1.4		1 1.4	1 1.4		4 5.6
	0.7-0.799				1 1.4	1 1.4										2 2.8
	0.8-0.899															
	0.9-1.00															
	Column Total	1 1.4	4 5.7	11 15.6	12 17.1	7 10.0	6 8.6	7 10.0	2 2.8	4 5.7	9 12.7	4 5.7	2 2.8	1 1.4		70 100

	Sales 1995														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30 b	
TSc95	0-0.099															
	0.1-0.199															
	0.2-0.299					1(14) 1.4					1 1.4					2 2.8
	0.3-0.399										1 1.4					1 1.4
	0.4-0.499			2 2.8	2 2.8						2 2.8					6 8.5
	0.5-0.599	1 1.4		3 4.2	3 4.2	1(14) 1.4	1 1.4	1 1.4	1 1.4	2 2.8	1 1.4	3 4.2		1 1.4		18 25.4
	0.6-0.699	1 1.4	1 1.4	4 5.6	2 2.8	4(57) 5.6	1 1.4	3 4.2	3 4.2	4 5.6	3 4.2	1 1.4	1 1.4			28 39.4
	0.7-0.799	1 1.4			1 1.4	1(14) 1.4	2 2.8			1 1.4	4 5.6	1 1.4		1 1.4		12 16.9
	0.8-0.899							1 1.4		1 1.4	1 1.4			1 1.4		4 5.6
	0.9-1.00															
	Column Total	3 4.2	1 1.4	9 12.7	8 11.3	7 9.9	4 5.6	5 7.0	4 5.6	8 11.3	13 18.3	5 7.0	1 1.4	3 4.2		71 100

Notes: TSc stands for total scores.

TABLE 5.10 CROSS-TABULATION OF COMPANIES SIZE AGAINST NON-GOVERNANCE INDEX

Sales 1985

NGSc85	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£3 0b	
	0-0.099		6 9.0	6 9.0	7 10.4	3 4.5	1 1.5	3 4.5					3 4.5	1 1.5		30 44.4
	0.1-0.199		3 4.5	6 9.0		1 1.5	1 1.5									11 19.0
	0.2-0.299		2 3.0	2 3.0	2 3.0	1 1.5		2 3.0					2 3.0			11 14.3
	0.3-0.399			1 1.5	2 3.0			1 1.5					1 1.5			5 6.3
	0.4-0.499			1 1.5	1 1.5		1 1.5	1 1.5					1 1.5			5 7.9
	0.5-0.599			2 3.0	1 1.5	1 1.5									1 1.5	5 7.9
	0.6-0.699															
	0.7-0.799															
	0.8-0.899															
	0.9-1.00															
	Column Total		11 16.5	18 27.0	13 19.4	6 9.6	3 4.5	7 10.5					7 10.5	1 1.5	1 1.5	67 100

Sales 1990

NGSc90	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£3 0b	
	0-0.099				1 1.4	1 1.4	2 2.8	2 2.8			1 1.4					7 9.7
	0.1-0.199		2 2.8	5 6.9	1 1.4		1 1.4	3 4.2	1 1.4			1 1.4				14 19.4
	0.2-0.299			1 1.4	1 1.4	1 1.4		1 1.4								4 5.6
	0.3-0.399	1 1.4	1 1.4	2 2.8	1 1.4					1 1.4	3 4.2	1 1.4	1 1.4			11 15.3
	0.4-0.499		1 1.4	2 2.8	3 4.2	2 2.8	1 1.4	1 1.4		2 2.8	2 2.8	1 1.4	1 1.4			16 22.2
	0.5-0.599		1 1.4	1 1.4	3 4.2	2 2.8	2 2.8				2 2.8	1 1.4				12 16.7
	0.6-0.699					1 1.4				1 1.4	1 1.4					3 4.2
	0.7-0.799				1 1.4											1 1.4
	0.8-0.899		1 1.4						1 100							2 2.8
	0.9-1.00				1 1.4									1 1.4		2 2.8
	Column Total	1 1.4	6 8.3	11 15.3	12 16.7	7 9.7	6 8.3	7 9.7	2 2.8	4 5.6	9 12.5	4 5.6	2 2.8	1 1.4		72 100

Sales 1995

NGSc95	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£3 0b	
	0-0.099			1 1.4	1 1.4						2 2.8					4 5.6
	0.1-0.199					1 1.4										1 1.4
	0.2-0.299			1 1.4	3 4.2	1 1.4					1 1.4					6 8.3
	0.3-0.399			1 1.4	1 1.4						1 1.4	2 2.8				5 6.9
	0.4-0.499			1 1.4	1 1.4		1 1.4		1 1.4	1 1.4	2 2.8		1 1.4	1 1.4		9 12.5
	0.5-0.599	2 2.8	1 1.4	5 6.9	2 2.8	4 5.6	1 1.4	2 2.8	3 4.2	4 5.6	2 2.8	1 1.4				27 37.5
	0.6-0.699						2 2.8	3 4.2		3 4.2				1 1.4		9 12.5
	0.7-0.799				1 1.4	1 1.4					3 4.2	2 2.8				7 9.7
	0.8-0.899	1 1.4									2 2.8			1 1.4		4 5.6
	0.9-1.00															
	Column Total	3 4.2	1 1.4	9 12.5	9 12.5	7 9.7	4 5.6	5 6.9	4 5.6	8 11.1	13 18.1	5 6.9	1 1.4	3 4.2		72 100

Notes: NGSc stands for Non-governance scores.

TABLE 5.11 CROSS-TABULATION OF COMPANIES SIZE AGAINST GOVERNANCE INDEX

	Sales 1985														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30b	
GSc85	0-0.099		3 4.8	4 6.3	3(23) 4.8	2(33) 3.2		1(33) 1.6	2(29) 3.2				2(29) 3.2	1(100) 1.6		18 25.4
	0.1-0.199		1 1.6	1 1.6		1(17) 1.6										3 4.2
	0.2-0.299		3 4.8	6 9.5	2(15) 3		1(33) 1.6	1(33) 1.6	2(29) 3.2				2(29) 3.2		1(100) 1.6	18 25.4
	0.3-0.399		2 2.8	6 9.5	5(39) 8	2(33) 3.2	2(67) 3.2	1(33) 1.6	3(43) 4.8				3(43) 4.8			24 33.8
	0.4-0.499		1 1.6	1 1.6	3(23) 5	1(17) 1.6										6 8.5
	0.5-0.599		1 1.6													1 1.4
	0.6-0.699		1 1.6													1 1.4
	0.7-0.799															
	0.8-0.899															
	0.9-1.00															
	Column Total		12 16.9	18 25.4	13 18.3	6 8.5	3 4.2	3 4.2	7 9.9				7 9.9	1 1.4	1 1.4	,71 100
	Sales 1990														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30b	
GSc90	0-0.099	1 1.4										1(25) 1.4				2 2.7
	0.1-0.199												1(50) 1.4			1 1.4
	0.2-0.299			1 1.4					1(50) 1.4	2(50) 2.7	1(11) 1.4					5 6.8
	0.3-0.399		2 2.7	2 2.7	4(33) 5.5	1(14) 1.4	1(17) 1.4	2(29) 2.7								12 16.4
	0.4-0.499		2 2.7	3 4.1	3(25) 4.1	3(43) 4.1	1(17) 1.4				2(22) 2.7			1(100) 1.4		15 20.5
	0.5-0.599		2 2.7	3 4.1	4(33) 5.5	2(29) 2.7	4(67) 5.5	5(71) 6.8	1(50) 1.4	2(50) 2.7	6(67) 8.2	1(25) 1.4				30 41.1
	0.6-0.699			2 2.7								2(50) 2.7	1(50) 1.4			5 6.8
	0.7-0.799				1(8) 1.4											1 1.4
	0.8-0.899			1 1.4		1(14) 1.4										2 2.7
	0.9-1.00															
	Column Total	1 1.4	6 8.2	12 16.4	12 16.4	7 9.6	6 8.2	7 9.6	2 2.7	4 5.5	9 12.3	4 5.5	2 2.7	1 1.4		73 100
	Sales 1995														
	Count Total %	<£0.1b	≥£0.1b <£1.0b	≥£0.1b <£1.5b	≥£1.5b <£2.0b	≥£2.0b <£2.5b	≥£2.5b <£3.0b	≥£3.0b <£3.5b	≥£3.5b <£4.0b	≥£4.0b <£4.5b	≥£4.5b <£5.0b	≥£5.0b <£10b	≥£10.0b <£20.0b	≥£20.0b <£30.0b	≥£30b	
GSc95	0-0.099															
	0.1-0.199															
	0.2-0.299															
	0.3-0.399					1(14) 1.4					1(8) 1.4					2 2.8
	0.4-0.499										2(15) 2.8					2 2.8
	0.5-0.599			2 2.8			1(25) 1.4		1(25) 1.4	1(13) 1.4		2(40) 2.8		1(33) 1.4		8 11.3
	0.6-0.699	2 2.8	1 1.4	5 7.0	6(75) 8.5	3(43) 4.2	1(25) 1.4	2(40) 2.8	3(75) 4.2	4(50) 5.6	7(54) 9.9	3(60) 4.2		1(33) 1.4		38 53.5
	0.7-0.799	1 1.4		2 2.8	2(25) 2.8	3(43) 4.2	2(50) 2.8	3(60) 4.2		3(38) 4.2	3(23) 4.2		1(100) 1.4			20 28.2
	0.8-0.899													1(33) 1.4		1 1.4
	0.9-1.00															
	Total Column	3 4.2	1 1.4	9 12.7	8 11.3	7 9.9	4 5.6	5 7.0	4 5.6	8 11.3	13 18.3	5 7.0	1 1.4	3 4.2		71 100

Notes: GSc stands for Non-governance scores

5.3.1.3 Spearman Rank Correlation and Kruskal-Wallis 1-way ANOVA Test

A similar problem that was experienced with cross-tabulation of industrial category was experienced in this section (i.e. the number of cells with expected number of less than 5 companies was well above 20%). As a result, statistical tests could not be carried out unless the number of cells with an expected number of 5 companies is below 20%. Therefore, in order to be able to proceed with the statistical tests, both the non-financial scores and the size categories were re-categorised into smaller number of categories.

Furthermore, it was important to consider corporate growth rates over the period under investigation as some of the shifts in the cross-tabulation tables may have been caused by corporate growth. The impact of growth was taken into account by re-classification of size categories for each of the three non-financial information indices in each year. The size classification, therefore, presented the size concentration of the period (see Appendix 5C, Tables 5C.1, 5C.2 and 5C.3, for the rearrangement of the size category). At the same time, non-financial scores were also re-classified so that there were three different categories of non-financial scores (i.e. one for total index, one for non-governance index and one for governance index) for each size category (see Appendix 5D) in each year. In this way, the rise in the level of non-financial information was taken into account.

The results for both the Chi-Square and Spearman Rank correlation are shown in Table 5.12. The results show no significant association between size and total index in 1985 and 1990. The only significant association was found between corporate size and non-governance score in 1995. This suggested that larger companies disclosed more non-governance information than smaller companies. No other significant associations were found.

TABLE 5.12 SPEARMAN RANK CORRELATION AND KRUSKAL-WALLIS 1-WAY ANOVA TEST

Non-Financial Scores	Spearman Rank Correlation	Sig Level	Kruskal-Wallis Chi-square	Sig Level
Tsc85	0.05	0.70	0.15	0.70
Tsc90	0.11	0.34	0.91	0.34
Tsc95	0.19	0.11	2.57	0.11
NGsc85	0.17	0.18	1.85	0.17
NGsc90	0.14	0.24	1.51	0.47
NGsc95	**0.30**	**0.01**	**6.35**	**0.04**
Gsc85	0.04	0.70	2.20	0.14
Gsc90	0.15	0.22	1.55	0.46
Gsc95	-0.01	0.92	2.39	0.30

5.3.2 Analytical Discussion

The findings of this section provide answers to the second supporting research question, which raised the question of *"whether there are any associations between corporate size and the level of non-financial information disclosure?"*. The overall findings on the second supporting research question is shown below:

	Total Scores	Non-Governance Scores	Governance Scores
1985	✗	✓	✗
1990	✗	✗	✗
1995	✗	✓	✗

'✓' denotes association between size categories and non-financial information scores.
'✗' denotes no association between size categories and non-financial information scores.

While the basic statistics, shown in Table 5.8, did not suggest that larger companies had disclosed higher or lower levels of non-financial information disclosure than smaller companies in either of the three years, the cross-tabulation of non-governance scores over size categories suggested differently. It was found that larger companies had higher non-governance scores than smaller companies in 1985 and 1995. Cross-tabulation of governance and total scores over size categories did not reveal any distinct pattern for either of the three years. In the case of statistical test, significant associations were observed between corporate size and non-governance scores in 1995.

No association was found between size and the level of governance information disclosure. One of the arguments used when analysing the findings for the first supporting research question (in section 5.2.2) was that companies in certain industries needed to disclose more governance information to legitimise their behaviours to their investors. Investors were often concerned whether or not companies would perform well in highly regulated and competitive industries. Governance information categories that are considered in this study are recommended by the Cadbury code of best practice which mainly aims at meeting the information requirements of investors. In the author's view, the finding of this section illustrates that before and after the introduction of the Cadbury code in 1992, companies from different size categories paid attention to the information requirements of their investors. This finding is also in line with the findings by Conyon and Mallin (1997) indicating that in 1995 most of the Top 100 UK companies complied with the Cadbury code's recommendations and disclosed information on their governance structures (see Chapter 3, section 3.2.1).

The findings of this section also provide evidence on the association between non-governance information disclosure and corporate size. This is in line with the findings of the previous literature which suggested that companies could have disclosed non-governance information to project a certain image. In the case of large companies, one could argue that more stakeholders other than investors are interested to know about companies' behaviours. Apart from being in the public eye, large companies are in control of many financial and human resources and their business conducts affect the welfare of a large group of stakeholders. In other words, non-managerial information was used by companies to legitimise their corporate behaviours to their stakeholders and to illustrate that they have the same values and norms as those of the society. In doing so, they could have adopted one of the four strategies introduced by Lindblom C. K. (1994). The author takes the view that companies could have disclosed non-governance information to either educate and inform their relevant public about the actual changes in their organization, or to change the perceptions of the relevant public without having to change their actual behaviours (i.e. the second strategy), or to change external expectations of their performance (i.e. the fourth strategy). According to the third strategy introduced by Lindblom C. K. (1994), companies can disclose information to manipulate the perception by deflecting attention from the 'issue of concern'. In the author's view, the third strategy was not relevant as the size of a company could not be regarded as an 'issue of concern'. Environmental incidents, poor managerial performance or intense competition within an industry could be regarded as the reason for raising stakeholders' concerns. Stakeholders would not necessarily be concerned simply because a company is large.

For example, a large company who suffers from poor working conditions, discrimination or poor health and safety records, is more exposed to the risk of its employees taking legal actions followed by negative publicity for the company. Another relevant example can be a large food retailer whose dairy products have been purchased from farms suspected of poor hygiene records. In this case, the food retailer would be under pressure from its customers to present them with their hygiene procedures and that they took to ensure public health and safety. If customer groups are not satisfied with explanations, more formal enquiries can be set up to officially investigate the case.

Both examples are indicative of larger companies encompassing a larger number of stakeholders in each stakeholder group who can be, in turn, more powerful in comparison to stakeholders of a smaller company.

In the author's view, this could be one of the reasons explaining why large companies disclosed information on non-governance information categories addressing issues that were of interest to different stakeholder groups. The findings of this section suggest that in the case of a large company, the pressures from stakeholders are exacerbated with the large number of stakeholders. This ultimately results in the disclosure of more non-governance information. Here, the lack of disclosure may be interpreted by stakeholders as managerial failure in recognising, and subsequently responding to their demands and expectations (Hammond and Solcum, 1996). Hence, companies disclose such information to legitimise their behaviours by adopting either of the Lindbllom's C. K. three strategies that were discussed earlier in this section.

From the author's point of view, another interesting finding in support of the above argument is that even though the non-governance index did not measure the extent of non-governance information disclosure, non-governance scores and size were found to be associated. The association with corporate size suggests that larger companies disclosed different levels of non-governance information to meet the information requirements of their stakeholder groups rather than focusing to meet the information requirements of their investors. In the author's view, investors are more likely to pay extra attention to those companies that face new challenges or are under regulatory or competitive pressures.

In a study by Belkaoui and Kaprik (1989), evidence was found that larger companies, which are politically more visible, disclose more social information. Similar findings were obtained by Adams, Hill and Roberts (1995, 1998) and Hackston and Milne (1996). The observed significant association between non-governance information and corporate size provides further evidence to support the findings of earlier studies.

5.4 NON-FINANCIAL INFORMATION DISCLOSURE AND CORPORATE GROWTH RATE

This section investigates the third supporting research question. As it was discussed in *Chapter 3*, the third supporting research question is concerned with:

> *"Whether there is any significant association between corporate growth rate and the non-financial information disclosed by the major UK companies?"*

The third supporting research question examined whether companies with higher or lower growth rates disclosed higher or lower levels of non-financial information, using the Spearman rank correlation and Kruskal Wallis test.

5.4.1 Descriptive Analysis

5.4.1.1 Basic Statistics and Growth Rate

Table 5.13 presents basic statistics on growth rates of companies whose non-financial scores are similar. For instance, in 1985-95, there were 4 companies, whose non-governance scores fell within the range of 0.1 to 0.2, with a growth rate of 54%. The evidence in Table 5.13 suggests that growing companies disclosed more non-financial information, when companies with the highest growth rates are observed to have the highest non-financial scores in that period. For instance, in 1985-95, 18 companies with the highest growth rate (i.e. 75%) scored between 0.6 and 0.7, which was not the highest range of non-financial scores. Over the same period, a higher total score was obtained by companies with a considerably lower growth rate (i.e. 2 companies, which had total scores between 0.7 and 0.8, had an average growth rate of 33%). As the evidence did not show that faster growing companies disclosed a different level of non-financial information than companies with slower growth rates, the period was divided into 1985-90 and 1990-95.

For the period 1985-90, there was no significant association. The only observation, which suggested that companies with a higher growth rate disclosed a higher level of non-financial information, was in 1990-95. In this period, 4 companies with highest growth rates (i.e. 39%) scored the highest level of non-governance information disclosure (i.e. 0.9 to 1.0).

TABLE 5.13 GROWTH AND NON-FINANCIAL INDICES

1985-95	Non-Governance Index		Governance Index		Total Index	
Scores 1995	No. of Co's	% Growth 1985-95	No. of Co's	% Growth 1985-95	No. of Co's	% Growth 1985-95
<0.1	-	-	-	-	-	-
≥0.1 < 0.2	4	54	-	-	-	-
≥0.2 < 0.3	1	-	-	-	2	38
≥0.3 < 0.4	5	44	2	43	-	-
≥0.4 < 0.5	7	64	2	95	6	65
≥0.5 < 0.6	10	69	7	105	15	76
≥0.6 < 0.7	18	75	30	60	23	62
≥0.7 < 0.8	2	33	18	47	8	45
≥0.8 < 0.9	10	53	-	-	3	37
≥0.9 < 1.0	3	37	-	-	-	-
1990-5	**Non-Governance Index**		**Governance Index**		**Total Index**	
Scores 1990	No. of Co's	% Growth 1985-90	No. of Co's	% Growth 1985-90	No. of Co's	% Growth 1985-90
<0.1	-	-	-	-	-	-
≥0.1 < 0.2	4	-9	-	-	-	-
≥0.2 < 0.3	1	-	-	-	2	-8
≥0.3 < 0.4	5	23	2	19	-	-
≥0.4 < 0.5	8	22	2	-38	6	-13
≥0.5 < 0.6	12	-23	7	11	17	6
≥0.6 < 0.7	20	15	37	18	26	13
≥0.7 < 0.8	3	22	18	6	12	24
≥0.8 < 0.9	10	31	-	-	3	50
≥0.9 < 1.0	4	39	-	-	-	-
1985-90	**Non-Governance Index**		**Governance Index**		**Total Index**	
Scores 1995	No. of Co's	% Growth 1990-5	No. of Co's	% Growth 1990-5	No. of Co's	% Growth 1990-5
<0.1	6	28	-	-	-	-
≥0.1 < 0.2	14	53	-	-	3	38
≥0.2 < 0.3	4	46	5	113	7	72
≥0.3 < 0.4	8	61	11	56	19	40
≥0.4 < 0.5	12	68	12	46	18	72
≥0.5 < 0.6	11	52	25	63	10	75
≥0.6 < 0.7	3	138	5	56	4	26
≥0.7 < 0.8	-	-	-	-	2	66
≥0.8 < 0.9	2	50	2	33	-	-
≥0.9 < 1.0	2	43	3	38	-	-

Notes: '% Growth' is corporate growth rate in terms of sales.
No. of Co.'s stands for number of companies.

5.4.1.2 Spearman Rank Correlation and Kruskal-Wallis 1-way ANOVA Test

The results for both the Spearman rank correlation and Kruskal-Wallis test are shown in Table 5.14. The results show negative association between governance scores and growth rate in 1985-95, suggesting that companies with negative growth rates reported more information on their governance structures. No association was observed between growth rate for 1985-95 and non-governance scores. When the period was divided into 1985-90 and 1990-95, no association between corporate growth rate and either of the non-financial indices was observed for 1985-90. In comparison, evidence from both statistical tests showed that both non-governance and total indices were positively associated with growth rate in 1990-95, suggesting that companies with positive growth rate had disclosed a higher level of non-governance information.

TABLE 5.14 SPEARMAN RANK CORRELATION AND KRUSKAL-WALLIS 1-WAY ANOVA TEST

	Spearman Rank Correlation	Sig Level	Kruskal-Wallis chi-square	Sig Level
1985-95 Growth				
NGsc95	-0.06	0.96	1.07	0.59
Gsc95	**-0.23**	**0.08**	**4.43**	**0.04**
Tsc95	-0.01	0.49	0.17	0.92
1985-90 Growth				
NGsc90	0.15	0.23	0.06	0.94
Gsc90	-0.04	0.75	0.04	0.84
Tsc90	0.13	0.29	1.49	0.48
1990-5 Growth				
NGsc95	**0.23**	**0.05**	**5.26**	**0.07**
Gsc95	-0.04	0.77	2.23	0.33
Tsc95	**0.28**	**0.02**	**3.06**	**0.08**

Notes: NGSc stands for non-governance scores, GSc stands for governance scores and TSc stands for total scores. Sig stands for significant.

5.4.2 Analytical Discussion

As was explained in *Chapter 3,* no previous study was found in the accounting literature which referred to the possible significant association between corporate growth rate and non-financial information disclosure. This section investigated the third supporting research question in an attempt to find out whether there was any association between corporate growth rate and the level of non-financial information disclosure. The overall evidence from statistical tests is presented below:

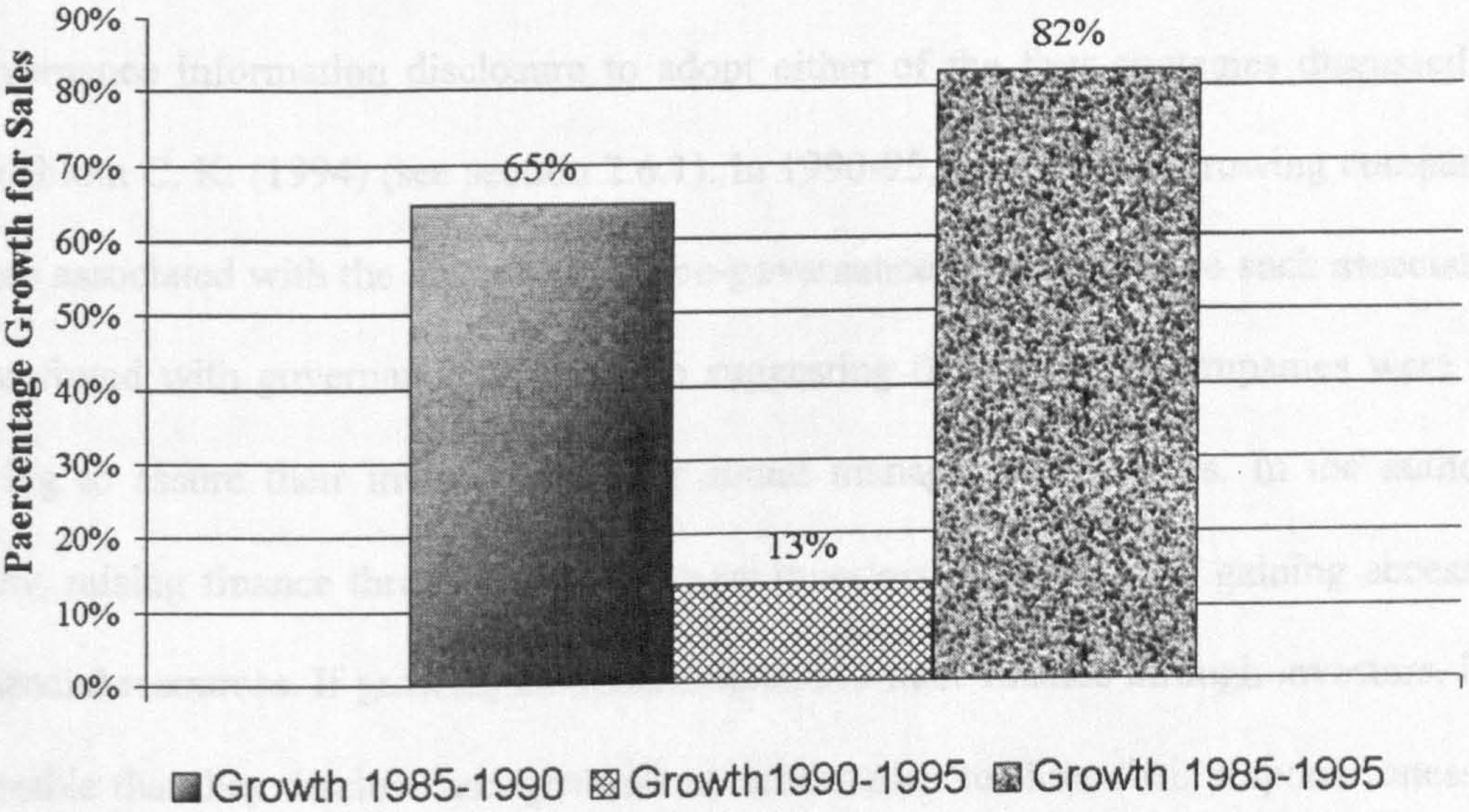
	Growth 1985-95		Growth 1985-90		Growth 1990-95
NGSc95	✗	NGSc90	✗	NGSc95	✓
GSc95	–✓	GSc90	✗	GSc95	✗
TSc95	✗	TSc90	✗	TSc95	✓

Notes: NGSc stands for non-governance scores, GSc stands for governance scores and TSc stands for total scores.
'✓' denotes association between growth rate and non-financial information scores.
'✗' denotes no association between growth rate and non-financial information scores.

For the whole period 1985-95, only a negative association with governance scores was observed. Interesting findings were obtained when the period between 1985 and 1995 was divided into 1985-90 and 1990-95. While no association was observed between either of the non-financial scores and growth rate in 1985-90, growth rates were observed to be associated with the total and governance scores in 1990-95. The author believes that this can be explained by looking at the average corporate growth rates for the two periods. Figure 5.1 presents the average growth rates for 1985-90 and 1990-95.

In the author's view, a generally high percentage of corporate growth rate (i.e. 65%) in 1985-90 meant that companies did not need to make extra efforts in order to grow. At the same time, the general level of non-financial information disclosure had an average rise of 51% (shown in Figure 4.5) over the same period. In comparison to 1985-90, in 1990-95 the general corporate growth rate of 13% (shown in Figure 5.1) together with 32% increase in non-financial scores (shown in Figure 4.5) was relatively small. The association between non-governance scores and growth rate suggests that companies needed to make extra effort to achieve high growth rates when in 1995 general growth rate was low (i.e. 13%).

FIGURE 5.1 CORPORATE GROWTH RATES



Among many other factors that could have affected growth, the author believes that in 1990-95 companies could have disclosed more non-governance information to project a more socially desirable image so that they could gain easier access to various human and financial resources they required for their growth. It is important to remember that growing companies need to finance new operations, to purchase fixed assets and to employ new technical expertise and managerial skills. A company with a more socially desirable image is perceived to have better future prospects and is, therefore, more likely to have a lower cost of raising capital (Navarro, 1988). In addition, human capital is more easily attracted when companies have a good track record for employment (McGuire *et al*, 1988) and, more generally, social or environmental issues.

In a way, companies disclosed information on their non-managerial aspects to portray a certain image of themselves[80]. Whether this image is a true image of the company remains unknown in the absence of any statutory or regulatory requirements ensuring the quality of such information. In other words, companies could have used non-governance information disclosure to adopt either of the four strategies discussed by Lindblom C. K. (1994) (see section 2.6.1). In 1990-95, even though growing companies were associated with the disclosure of non-governance information, no such association was found with governance information suggesting that growing companies were not trying to assure their investors of their sound managerial structures. In the author's view, raising finance through attracting new investors is one way of gaining access to financial resources. If growing companies intend to raise finance through investors, it is possible that they disclose non-governance information to show their responsiveness to social changes and expectations. Hence, companies present themselves as having future prospects so that they are in better position to attract new investors.

5.5 Non-financial Information Disclosure and Corporate Financial Performance

This section provides statistical analysis in order to answer the *fourth supporting research question*, which is:

> *"Are there any associations between different aspects of corporate performance and the non-financial information disclosed by the major UK companies?"*

[80] See Hines (1988).

5.5.1 Descriptive Analysis

As it was explained in *Chapter 3*, this study used accounting-based measures of performance to investigate the fourth supporting research question. This section provides descriptive analysis, using Spearman rank correlation, only (as discussed in section 3.3.2).

5.5.1.1 Spearman Rank Correlation

The results of Spearman rank correlation are shown in Table 5.15. The Table presents the evidence on association between non-financial information indices and three main performance aspects, namely profitability, managerial performance and liquidity.

<u>**1985**</u>

In 1985, the total score was found to be associated with profit margin and with liquidity ratios. Positive significant association with the profit margin meant that profitable companies reported non-financial information, and negative link with liquidity ratio suggested that companies with lower liquidity disclosed more non-financial information, and vice versa.

When the index was broken down into its two components (i.e. governance and non-governance indices), it was found that the disclosure of governance information was significantly associated with rates of return on shareholders' equity.

As for the non-governance scores, positive significant association was observed with profit margin ratio, suggesting that profitable companies disclosed more non-governance information than non-profitable companies. No significant association was found between either of the three indices and either gearing ratio, which presented how risky companies were, or turnover ratios, which presented managerial efficiency.

1990

In 1990, the total index was linked to one more performance aspect relative to 1985. The total index was associated with turnover ratio, which is a measure of managerial efficiency, as well as with profit margin and liquidity ratios as in 1985. The negative significant association with turnover ratio suggested that companies with inefficient managers disclosed more non-financial information. When the total index was broken down into governance and non-governance indices, significant associations with more aspects of corporate performance were observed.

Negative significant associations were observed between governance scores and rate of return on shareholders' equity, suggesting that companies with high rates of return were disclosing less governance information, and vice versa. Conversely, both profitability and rates of return on shareholder's equity were found to be positively associated with non-governance scores. This meant that companies with a higher rate of return on shareholder's equity disclosed more governance information.

In addition, the results showed negative association between managerial efficiency and non-governance scores, suggesting that companies with less efficient managers disclosed more non-governance information. None of the indices were associated to either gearing or productivity ratios.

1995

By 1995, the number of significant associations between the total index and different aspects of corporate performance had increased relative to 1990. As the level of non-financial information disclosure increased, the total index was found to be significantly associated with the profitability ratios (i.e. rates of return on share's equity and profit margin), liquidity ratio and, for the first time, the productivity ratios.

TABLE 5.15 SPEARMAN RANK CORRELATION BETWEEN CORPORATE PERFORMANCE AND NON-FINANCIAL INFORMATION DISCLOSED

Performance Aspects	Profitability		Managerial Performance			Liquidity
Ratios	Rates of Return	Profit Margin	Turnover ratios	Gearing	Productivity	Working Capital
	701	713	723	731	763	741
1985						
GSc	0.207 (0.107)	0.115 (0.371)	0.030 (0.817)	0.126 (0.326)	0.105 (0.420)	-0.192 (0.132)
NGSc	0.105 (0.418)	0.220 (0.083)	-0.047 (0.713)	0.006 (0.966)	0.181 (0.162)	-0.147 (0.251)
TSc	0.189 (0.141)	0.214 (0.092)	-0.015 (0.909)	0.076 (0.554)	0.180 (0.165)	-0.209 (0.101)
1990						
GSc	-0.271 (0.021)	0.168 (0.154)	-0.089 (0.456)	0.038 (0.749)	0.052 (0.667)	-0.126 (0.289)
NGSc	0.199 (0.094)	0.139 (0.243)	-0.330 (0.005)	0.047 (0.692)	0.021 (0.865)	-0.217 (0.067)
TSc	0.006 (0.960)	0.213 (0.073)	-0.328 (0.005)	0.060 (0.620)	0.046 (0.706)	-0.258 (0.029)
1995						
GSc	-0.058 (0.633)	-0.052 (0.667)	0.022 (0.859)	-0.097 (0.420)	0.147 (0.224)	-0.178 (0.138)
NGSc	0.262 (0.026)	0.276 (0.020)	0.079 (0.514)	0.007 (0.952)	0.267 (0.025)	-0.202 (0.089)
TSc	0.199 (0.096)	0.203 (0.092)	0.020 (0.869)	-0.037 (0.762)	0.279 (0.019)	-0.252 (0.034)

Note: TSc stands for total scores, NGSc stands for non-governance scores, and GSc stands for governance scores. Figures in brackets show the significant level. Ratios and their Codes collected from the Datastream are shown below:

Rate of Return
701 Return on shareholder's equity
Profit Margin
713 Trading profit margin
Turnover ratios
723 Turnover/net current assets

Liquidity ratio
741 Working Capital ratio
Gearing Ratio
Capital gearing (%)
Productivity Ratios
763 Operating Profit per employee

Components of each ratio are shown in Appendix 5E.

When the total index was broken into governance and non-governance indices, non-governance index was associated with the high rates of return on shareholders' equity, profit margin, productivity and liquidity ratios. No link was found between governance scores and any of the performance aspects.

The emergence of links between productivity ratio and non-governance scores meant that companies, which had focused on efficient human resource management, also concentrate on the disclosure of more non-governance information.

5.5.2 Analytical Discussion

The findings of this section provided answers to the fourth supporting research question which ask "whether there are any associations between different aspects of corporate performance and the non-financial information disclosed?" The overall finding of this section supports the findings of the earlier studies, shown in Table 3.6, suggesting that in 1995 different aspects of corporate performance were associated with the disclosure of non-financial information. A brief summary of the findings for each performance aspect is presented below:

Performance Aspects	Profitability		Managerial Performance			Liquidity
Ratios	Rates of Return	Profit Margin	Turnover Ratios	Gearing	Productivity	Working Capital
			1985			
GSc85	✓	✗	✗	✗	✗	✗
NGSc85	✗	✓	✗	✗	✗	✗
TSc85	✗	✓	✗	✗	✗	–✓
			1990			
GSc90	–✓	✗	✗	✗	✗	✗
NGSc90	✓	✗	–✓	✗	✗	–✓
TSc90	✗	✓	–✓	✗	✗	–✓
			1995			
GSc95	✗	✗	✗	✗	✗	✗
NGSc95	✓	✓	✗	✗	✓	–✓
TSc95	✓	✓	✗	✗	✓	–✓

Notes: Tsc stands for total non-financial scores, NGsc stands for non-governance scores, and Gsc stands for governance scores. Coeff of Var stands for coefficient of variation.
'✓' denotes association between performance aspects and non-financial information scores.
'✗' denotes no association between performance aspects and non-financial information scores.

With the increasing number of companies disclosing more non-financial information by 1995, non-financial scores appeared to be associated with more aspects of corporate performance relative to 1985. One of the ratios that was found to be associated with total scores in each of the three years was profit margin ratio.

The lack of non-financial information disclosure may be interpreted by stakeholders as managerial failure in recognising and, subsequently, maintaining responsiveness to the changing external environments (Hammond and Slocum, 1996). This would raise doubts about managers' ability to run companies efficiently (Bowman and Haire, 1975; Sethi, 1975; and Ullmann, 1985), resulting in more implicit costs (Cornell and Shapiro, 1987) and making it more difficult and costly for companies to raise finance (McGuire, Sundgren, and Schneeweis, 1988).

When the total index was broken down into governance and non-governance indices, the findings illustrated that in 1985 and 1990, governance scores were associated with the rate of return ratio, which was in the main interest of shareholders. While this link was positive in 1985, a negative link was observed for 1990.

The positive link of 1985 indicated that companies with a positive rate of return had reported governance information. In other words, as companies provided more information to assure their shareholders that they acted in their best interests, they were found to have increasing positive rates of return on their shareholders' equity. One way of explaining how companies could have disclosed governance information to legitimise their corporate behaviour is by looking at the way the level of governance information disclosure is expected to reduce the risk perceived by outsiders, including investors, and therefore, made it easier for the company to raise finance (*Corporate Governance*, 1999: p1). This means that companies were able to raise profitability by reducing implicit costs[81] (Cornell and Shapiro, 1987) and, hence a higher rate of return.

In the case of negative significant association in 1990, companies with high rates of return on shareholders' equity were found to reveal less governance information. A possible reason for this could be that the rate of return on shareholders' equity was shareholders' main concern and as long as its value was high, shareholders were not perhaps interested to know how the company was run at the top managerial level.

In this part of the study, we are concerned with stakeholder groups who are interested in financial performance of companies. Thus, companies can use the disclosure of non-financial information to adopt one of the four strategies introduced by Lindblom C. K. (1994) to justify their corporate behaviours. For instance, the negative significant association between total scores and liquidity ratio for all the three years can be explained using any of the Lindblom's C. K. (1994) four strategies. Companies could have adopted the first legitimacy strategy by Lindblom C. K. (1994) simply to inform their stakeholders of the actual non-governance changes that were taking place within their companies. By adopting the first strategy, in a way, companies could explain that as a result of the investment in non-governance aspects, their liquidity position was weak over the accounting period (i.e. presentation of the actual situation). At the same time, they could have disclosed non-financial information, possibly, as part of an image making process to change or to manipulate the perception of their stakeholders (the second strategy) or to manipulate their perceptions by deflecting attention from their poor liquidity positions (the third strategy). Companies can adopt the second and third

[81] For example, potential investors can be ensured of the quality of the top management and the way the top management acts in their best interests. They can be, therefore, attracted to invest in the company

strategies by showing to their stakeholder groups that they are socially responsible and have future prospects and can improve their poor liquidity position in a foreseeable future. Alternatively, companies may disclose non-governance information to change the external expectations of their poor liquidity position (the fourth strategy).

The observation of negative significant associations between liquidity and non-governance scores in both 1990 and 1995 can be regarded as a special reference to the non-governance scores in terms of the above findings (i.e. companies used their non-governance information to legitimise their performance).

The evidence revealed little difference between governance and non-governance indices in terms of their significant associations with different aspects of performance in 1985 and 1990. This was not, however, the case in 1995, when non-governance score was shown to be significantly associated with many different aspects of performance in comparison to only one aspect, with which the governance score was linked. In the latter case, the disappearance of significant associations between governance score and various performance aspects was due to the introduction of the Cadbury code in 1992, which was complied with by most UK companies as found by Conyon and Mallin (1997). The findings on the lack of significant association meant that we had no evidence which could be interpreted as companies disclosing governance information to adopt one of the four legitimacy strategies introduced by Lindblom C. K. (1994). It is most likely that they disclosed information to comply with the Cadbury code. In the case of non-governance scores, the evidence observed in 1995 was in line with the findings of the earlier studies such as Cochran and Wood (1984), Ullmann (1985) and

---

more easily.

McGuire, Sundgren and Schneeweis (1988) and many other earlier studies, which were carried out in the 1970s to 1990s and found associations with corporate performance (shown in Table 3.6).

With the increasing level of non-governance information, the emergence of more significant associations with different aspects of corporate performance is indicative of the increasing use of non-governance information by companies for various purposes, including the promotion of firm's image in order to reduce costs of raising capital, increasing the goodwill support by customers (Navarro, 1988), and maintaining a good track record in the labour market (McGuire *et al*, 1988). Alternatively, a potential reason could be that companies disclosed non-financial information in response to the increasing pressures from their stakeholder groups (as suggested by Ullmann, 1985).

5.6 Summary of Empirical Findings and The Link With the Previous Literature

This section provides a summary of the main findings of this chapter as well as the expected outcomes that were originally formed in *Chapter 3* after the literature review. This section also provides discussions on the likely reasons why some of the findings of this study were not in alignment with the findings of the previous studies. The overall findings of the preceding sections on the association between the two non-financial indices and industrial affiliation, corporate size, growth rate and corporate performance are shown in Table 5.16.

In Table 5.16, the black shaded areas represent those findings that are not supported by the previous literature and the grey shaded areas represent those findings that are in alignment with the findings of the previous studies. In the case of supporting research questions 1 to 3, it was possible to measure the association between each corporate characteristic and non-financial disclosure directly. Unlike supporting research questions 1 to 3, the association between corporate performance and the two non-financial indices (i.e. the fourth supporting research question) could not be measured directly as there were different aspects of performance to consider. Hence, the final decision on whether corporate performance and non-financial information disclosure were associated was based on whether the number of the observed associations was larger than the number of cases where no association was observed. In 1985, for instance, 5 out of a total number of 6 ratios were found not to be linked with non-governance scores (shown in Table 5.16). Hence, it was decided that in 1985 corporate performance and non-governance information were not linked with the overall performance. This was represented with 'No' in the black shaded area (shown in Table 5.16).

TABLE 5.16 SUMMARY OF EMPIRICAL FINDINGS AND COMPARISON WITH THE PREVIOUS LITERATURE

Corporate Characteristics		Non-Governance 1985	Non-Governance 1990	Non-Governance 1995	Governance 1985	Governance 1990	Governance 1995	Previous Literature (Table 3.6)
Industrial affiliation	*Observed*	✗	✗	✗ [a]	✓	✗	✓ [b]	Previous literature (shown in Table 3.6) unanimously suggests association between industrial affiliation and social information disclosure/performance. As it is shown in Table 3.6, only 1 out of 10 studies (i.e. Ng, 1985) did not find supporting evidence.
	Expected	✓	✓	✓	✓	✗	✗	
Corporate size	*Observed*	✓	✗	✓	✗ [c]	✗	✗	Previous literature (shown in Table 3.6) unanimously suggests association between industrial affiliation and social information disclosure/performance. As it is shown in Table 3.6, only 1 out of 13 studies (i.e. Davey, 1985) did not find supporting evidence.
	Expected	✓	✓	✓	✓	✗	✗	
Performance aspects								
1. Profitability								
Rates of returns	*Observed*	✗	✓	✓	✓	-✓	✗	Previous literature (shown in Table 3.6) suggested association with profitability (Roberts, 1992; and Gray, Javad, Power and Sinclair, 1999). Disclosure of non-governance information means lower implicit costs and subsequently higher profitability (Cornell and Shapiro, 1987).
	Expected	✓	✓	✓	✓	✗	✗	
Profit margin	*Observed*	✓	✓	✓	✗	✗	✗	
	Expected	✓	✓	✓	✓	✗	✗	
2. Managerial Performance								
Asset Turnover	*Observed*	✗	-✓	✗	✗	-✓	✗	No previous study was found on the association with asset turnover ratio.
	Expected	✓	✓	✓	✓	✗	✗	
Productivity	*Observed*	✗	✗	✓	✗	✗	✓	No previous study was found on the association with productivity ratio.
	Expected	✓	✓	✓	✓	✗	✗	
Gearing	*Observed*	✗	✗	✗	✗	✗	✗	Aupperle, Carroll and Hatfield (1985), among many others (shown in Table 3.6), suggested that lower risk meant more social disclosure. Also, see liquidity aspect of performance below.
	Expected	-✓	-✓	-✓	-✓	✗	✗	
3. Liquidity								
Working capital	*Observed*	✗	-✓	-✓	✗	✗	✗	Companies with better reputation (i.e. social image) can have easier access to capital (i.e. cheaper to borrow) (Spicer, 1978; Moussavi and Evans, 1986).
	Expected	✓	✓	✓	✓	✗	✗	
Overall findings for Performance	*Observed*	No[d]	Yes	Yes	No[e]	No	No	
	Expected	Yes	Yes	Yes	Yes	No	No	

		Growth 85-90	Growth 90-95	Previous literature
NG90	*Observed*	✗ [f]	-	No previous study was found to examine whether corporate growth rate and non-governance information was associated. In the absence of any relevant previous study, this study took the view that among many other factors, growing companies need to gain the loyalty of new customers, the trust of new suppliers and creditors. Hence, growing companies are likely to project a socially desirable picture of themselves to their stakeholder groups (relevant public) by disclosing non-governance information.
	Expected	✓	-	
G90	*Observed*	✗	-	
	Expected	✗	-	
NG95	*Observed*	-	✓	
	Expected	-	✓	
G95	*Observed*	-	✗	
	Expected	-	✗	

Notes:
'✓' denotes association between corporate characteristics and non-financial information scores.
'✗' denotes no association between corporate characteristics and non-financial information scores.
'a', 'b', 'c', 'd', 'e' and 'f', highlighted in black shaded areas, represent those findings that are not in line with the previous literature.
The grey shaded areas represent those findings that are in alignment with the previous literature.

5.6.1 Discrepancies between the actual and the expected results

As it was shown in Table 5.16, those findings that were not in alignment with the expected results were denoted by superscripts 'a' to 'f'. In this section, the possible reasons for the observed discrepancies are presented with reference to the alphabetic letters by which the discrepancies were denoted in Table 5.16. The author takes the view that explanations of why the observed discrepancies occurred would assist the reader to have a better understanding of how companies may decide to disclose non-financial information in the absence of any regularity requirements or any recognition by the professional bodies.

a) Industrial Affiliation and Non-Governance Scores - 1985 to 1995

The overall finding suggested that non-governance scores were not associated with the industrial backgrounds of companies in either of the three years. This is despite the findings of the previous studies. As it was shown in Table 3.6, 9 out of 10 studies found associations. Only Ng (1985) found no association between social information disclosure and industrial affiliation.

This discrepancy can be explained by focusing on three aspects which are relevant to this study. Firstly, many of the previous studies focused on specific aspects of non-governance issues (see Table 3.6). For example, Adams, Hill and Roberts (1995 and 1998) focused on environmental and employee aspects of disclosure, Hackston and Milne (1996) and Gray, Javad, Power and Sinclair (1999) concentrated on social and environmental disclosures, while Cowen, Ferreri and Parker (1987) examined the association between industrial backgrounds of companies and energy and community disclosures. This study, however, was concerned with the disclosure/non-disclosure of information on a range of different non-governance information categories (as it was discussed in section 3.2.2).

Secondly, this study used indexing which is one form of content analysis and does not measure the extent of non-governance information disclosure (as explained in section 5.2.2). While 'indexing' is mainly used in other fields of accounting (Cooke, 1989, 1991, 1992, 1993; Hossain *et al,* 1994; Raffournier, 1995; and Wallace and Naser, 1995), most studies in the field of social and environmental accounting use other forms of content analysis and measure the extent of disclosure (e.g. Adams, Hill and Roberts, 1995, 1998; Gray *et. al.*, 1999; and Hackston and Milne, 1996; among many others).

Thirdly, as was discussed in section 3.3, many of the studies that were mentioned in Table 3.6, measured corporate social responsibility which was not necessarily the same as social/environmental information disclosure.

b) Industrial Affiliation and Governance Scores - 1995

In 1995, corporate governance scores and industrial backgrounds were found to be associated suggesting that despite the earlier expectation in 1995, all companies would report governance information regardless of their corporate characteristics. This finding was despite the earlier findings of Conyon and Mallin (1995) who found a high compliance with the recommendations of the Cadbury code among the large UK companies. However, this finding is in alignment with the findings of a study by Buckland and Dobble (1995) who found evidence to suggest that despite the common perception that compliance with the Cadbury code would indicate a sound governance structure and provides assurances to the shareholders, many companies in their sample chose not to comply.

The above discrepancy between the actual and the expected results may also be explained by the 13 companies that entered the market between 1985 and 1995 (see Table 5.6). These new entries which belonged to certain industries needed to be financially successful in order to survive in a highly competitive and highly regulated industries (as discussed in section 5.6). Hence, it is likely that these new entrants reported governance information to provide assurances to their investors of their sound managerial systems and the fact that they were acting in the best interest of their investors. This can be a potential explanation why companies in certain industries disclosed more governance information than companies in other industries.

c) Corporate Size and Governance Scores - 1985

The findings suggest that in 1985, despite the earlier expectations that larger companies would disclose governance information as they were in the public eye, the level of non-financial information disclosure was not found to be associated with corporate size. One possible explanation can be that in 1985 the overall level of governance scores was generally low (i.e. 25% in 1985 in comparison to 66% in 1995) and most of the Top 100 UK companies disclosed similar levels of governance information. Similar logical explanations can be applied for the discrepancies denoted by 'd', 'e' and 'f'.

Apart from the above discrepancies ('a' to 'f'), Table 5.16 highlights many of the associations that are found in this study are supported by the findings of the previous studies. For instance, size was associated with both governance and non-governance scores. In the case of non-governance scores, most of the previous studies (Gray *et al*, 1999; Adams *et al*, 1995 and 1998; and Hackston and Milne, 1996; Belkaoui and Karpik, 1989; Cowen, Ferreri and Parker, 1987, among many others) had found association with corporate size (see Table 5.16). In the case of performance, many aspects of performance were linked to non-governance scores in 1990 and 1995. As it was shown in Table 3.6, 21 out of the 27 studies that were reviewed had found associations with corporate performance. Hence, the findings of this study are supported by most of the previous studies.

The summaries of the findings in Table 5.16 show that governance scores were not associated with either size, growth or performance in 1990 and 1995. These findings are in line with the expectations formed in *Chapter 3*, indicating that the major UK companies disclosed governance information regardless of their size, financial performance and growth rate. The lack of any associations between governance scores and these three corporate characteristics means that as far as the governance scores are concerned this study has not found evidence in support of companies using information disclosure to legitimise their behaviours. In comparison to the governance scores, the findings of this chapter (as shown in Table 5.16) provided evidence that non-governance scores were linked with size, performance and growth (i.e. growth 90-95) in 1995. As it was argued in the final parts of section 2.3.2, any evidence on the association between corporate characteristics and non-financial information indices can be interpreted as companies disclosing non-financial information to legitimise their corporate behaviours to their stakeholders.

5.7 Conclusion

This chapter concentrated on empirical investigation of supporting research questions 1 to 4 in order to answer the first key research question which was concerned with "whether companies disclose non-financial information to legitimise their corporate behaviours to their stakeholder groups?". Each supporting research question was probed in terms of governance, non-governance and total scores for 1985, 1990 and 1995. The investigation for each supporting research question concentrated on finding evidence on whether there was any association between non-financial scores and each of the four corporate characteristics. As it was argued in *Chapter 2*, the observation of associations with any of the corporate characteristics, would indicate that companies could have adopted one of the four strategies introduced by Lindblom C. K. (1994) when disclosing non-financial information.

The following table provides a summary of the overall association between the two NFI indices and corporate characteristics. The overall findings indicated that there were links between corporate characteristics and non-financial information.

Corporate Characteristics		**Non-Governance**			**Governance**		
		1985	**1990**	**1995**	**1985**	**1990**	**1995**
Industrial affiliation	*Observed*	✗	✗	✗	✓	✗	✓
	Expected	✓	✓	✓	✓	✗	✗
Corporate size	*Observed*	✓	✗	✓	✗	✗	✗
	Expected	✓	✓	✓	✓	✗	✗
Overall findings for Corporate Performance	*Observed*	No	Yes	Yes	No	No	No
	Expected	Yes	Yes	Yes	Yes	No	No
			Growth 85-90			**Growth 90-95**	
Non-Governance 90	*Observed*		✗			-	
	Expected		✓			-	
Governance 90	*Observed*		✗			-	
	Expected		✗			-	
Non-Governance 95	*Observed*		-			✓	
	Expected		-			✓	
Governance 95	*Observed*		-			✗	
	Expected		-			✗	

Notes: '✓' denotes association between corporate characteristics and non-financial information scores.
'✗' denotes no association between corporate characteristics and non-financial information scores.
The black shaded areas represent those findings that are not in line with the previous literature.
The grey shaded areas represent those findings that are in alignment with the previous literature.

The major conclusion from the results can be summarized as follows:

- The first supporting research question was analysed by focusing on industrial affiliation. In the case of industrial backgrounds, the findings showed that in 1985 and 1995 the governance scores and industrial backgrounds were associated. In 1985, the overall level of governance information disclosed by companies was low and the observation of association shows that only companies from certain industries were disclosing governance information. In 1995, the link between governance scores and industrial affiliation was despite the earlier expectations that companies from all industries would disclose similar levels of governance information after the introduction of the Cadbury code of best practice in 1992.

- In the case of industrial affiliation and governance scores, the discussion in section 5.2.2 explained that companies could have disclosed governance information to adopt one of the four Lindblom's C. K. (1994) strategies. This was to assure their investors that they had sound governance structures to run the company efficiently in regulated and competitive industries. It was interesting to find out that in 1995 governance scores were still associated with the industrial backgrounds of companies. This was despite the recommendations of the Cadbury code of best practice (1992). One possible explanation for this is that companies from certain industries were paying more attention to the information requirements of their investors and they were highly likely to be under more pressure from their investors.

- The lack of observation of any association between non-governance information and industrial affiliation in 1995 was not in line with the findings of previous studies. This was explained by the fact that the non-governance index used for the purpose of this study did not measure the extent of disclosure. Companies in certain industries are likely to concentrate on certain non-governance information categories and report extensively on them. It was, however, argued that this could not have been reflected by the index used in this study and can be regarded as a potential reason why no association was observed between non-governance scores and industrial affiliation.

- In section 5.3, investigation was carried out to assess the link between corporate size and non-financial information disclosure (i.e. the second supporting research question). The findings showed that the only observed association were in 1985 and 1995 when larger companies disclosed more non-governance information than smaller companies did. This finding supports the earlier contentions by some researchers that in the absence of any regulations or any recognition by the professional bodies, non-governance information can be easily used for different purposes. While the first, second and fourth strategies of Lindblom C. K. (1994) were applied to explain the disclosure of non-governance information, it was argued that the third strategy could not be used to explain the disclosure of non-governance information.

- With the increasing size of companies, each stakeholder group comprised a large number of individual stakeholders resulting in higher stakeholder pressure on companies. As a result, larger companies were more exposed to the risk of negative publicity. Hence, they disclosed more non-managerial information covering the interests of a wider range of stakeholder groups other than investors.

- The chapter proceeded to investigate the third supporting research question, which was concerned with the association between corporate growth and disclosure of non-financial information. Significant association was found between non-governance scores in 1995 and growth rate for the period 1990-95. Once again, with the increasing level of non-financial information in 1995, growing companies were disclosing more non-governance information than companies with lower growth rates. It was argued that companies could have adopted any of the four strategies discussed by Lindblom C. K. (1994) when disclosing non-governance information to their stakeholders. One possible explanation is that growing companies, which needed to expand their operations, required to employ extra financial and human capital. It was argued that it would be less costly for companies to access different resources if they appear to have a prosperous future, which ultimately gained companies the goodwill of their stakeholder groups such as lenders, customers and employees. No association was found between corporate growth and governance scores.

- The fourth supporting research question, which was concerned with corporate performance and non-financial information disclosure, was investigated in section 5.5 using accounting-based measures of performance. It was found that in 1985, well before the publication of the Cadbury code of best practice in 1992, different aspects of performance were linked to governance scores. Once again, the observation of this link points to the direction that companies could have disclosed governance information to adopt either of the Lindblom's C. K. (1994) four strategies. In 1990, just before the publication of the Cadbury code in 1992, and in 1995, well after the publication of the Cadbury code, significant associations between governance scores and performance measures had disappeared indicating that companies were disclosing governance information regardless of their corporate performance.

- Finally, the result showed that as the level of non-financial information disclosure rose in 1995, the number of links between various performance aspects and non-governance scores also increased. This showed that in the absence of any regulations or any recognition by the accounting profession, companies chose to report non-governance information most possibly to legitimise their behaviours to those stakeholder groups, who mainly had financial interest in companies, in return for their stakeholders' goodwill. In this way, companies could have had less costly access to financial and labour capital. It was argued that in doing so, companies could have adopted either of the Lindblom's C. K. (1994) four strategies.

CHAPTER 6 THE ANALYSIS OF THE RESULTS FROM QUESTIONNAIRE SURVEY – EMPIRICAL EVIDENCE II

6.1 INTRODUCTION

The purpose of this chapter is to investigate "whether companies paid any attention to the quality of non-financial information by meeting the information requirements of their stakeholder groups?" (i.e. the second key research question). While the previous chapter investigated the first key research question suggesting that companies with certain characteristics (i.e. industrial affiliation, corporate size, growth and financial performance) used non-financial information disclosure to legitimise their corporate behaviours, this chapter focuses on the 'quality' of non-financial information.

Following the design of the questionnaire surveys to investigate the second key research question in *Chapter 4*, this chapter expands the findings of the previous chapter and concentrates on analysing responses to the questionnaires to answer the supporting research questions 5 and 6. The two supporting research questions were concerned with two of the five aspects of 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR) aspects, namely 'stakeholder identification' and 'stakeholder dialogue'.

The fifth research question, which is concerned with 'stakeholder identification', is addressed to companies only. The sixth research question, which deals with 'stakeholder dialogue', is analysed by looking at the responses from companies, investors and employees. The responses from each group are used to assess stakeholder dialogue in terms of its three aspects, namely 'methods of communication', 'information items disclosed to stakeholder groups' and 'two-way communication and consultation with stakeholder groups'.

This chapter analyses the responses received from companies, investors and trade union representatives in sections 6.2, 6.3 and 6.4, respectively. In section 6.5, the responses from the three groups are compared to provide a more in-depth understanding of the findings. Each section comprises two sub-sections, namely 'descriptive' and 'analytical' sections. In the descriptive sections, the gathered evidence on each of the three aspects of stakeholder dialogue is reported in a separate section. For companies, there is an additional section, which examines the corporate responses on 'stakeholder identification'.

Unlike the previous chapter, where analytical sections provided answers to the relevant supporting research question, in this chapter the sixth research question will be answered in the concluding section. This is because the responses from three groups (i.e. companies, employees and investors) need to be analysed individually and, subsequently, the responses from companies and each of the two stakeholder groups are compared before drawing the overall conclusion on the state of stakeholder dialogue. The comparison between the responses from companies and each of their two stakeholder groups is carried out in section 6.6. The fifth research question is answered in the analytical section 6.2.2 as this research question was addressed to companies only.

Empirical findings are presented in tabular formats and, in section 6.6, graphs are used to illustrate the discrepancies between the responses received from companies and their two stakeholder groups. The figures shown in the Tables present the percentage number of respondents (i.e. companies, investors or trade union representatives) unless stated otherwise.

The chapter will be concluded in section 6.6, where the overall findings for supporting research questions 5 and 6 are summarised to answer the second key research question.

6.2 RESPONSES FROM COMPANIES

6.2.1 Descriptive Analysis

As it was explained in *Chapter 3*, the questionnaire designed for companies was different to the questionnaires sent to investors and trade union representatives in the way its first part had addressed the fifth supporting research question, asking companies about 'stakeholder identification'. The remaining three sections were similar to the questionnaires sent to investors and trade union representatives. The results for this section are shown in Tables 6.1, 6.2, 6.3 and 6.4.

6.2.1.1 Stakeholder Recognition

Companies were asked to identify the importance they attach to each of their stakeholder groups and whether they had any procedures to recognise their major stakeholder groups. The responses indicated that the most important stakeholders were investors with employees in second place and customers, public and suppliers coming in the third, fourth and fifth places, respectively (shown in Table 6.1). The responses revealed that 37.5% of companies had procedures for recognising their stakeholder groups. Some companies claimed that they used the percentage of share ownership as the basis of identifying the importance they attached to each stakeholder group.

TABLE 6.1 DEGREE OF IMPORTANCE ATTACHED TO EACH STAKEHOLDER GROUP

Stakeholder Group	The Importance Attached to Each Stakeholder Group By Companies*
Investors	1.19
Employees	1.75
Customers	2.14
Public	2.62
Suppliers	3.08

* Note: 1=Very major, 2=Major, 3=Somewhat Major, 4=Not Very Major, 5=Not At All Major.

6.2.1.2 Methods of Communication

When companies were asked about the methods they used to communicate with their stakeholder groups, it was revealed that face to face methods were most popular used for investors. For example, 75% of companies claimed to use 'group meetings' to communicate with their investors in comparison to 43.8% of companies using the same method to communicate with their employees. A similar result was observed for 'large scale meetings'. The responses showed that companies preferred to have group meetings with their investors as the investors had the opportunity to ask questions and to discuss matters with them. None of the written method nor any of the audio visual and electronic methods appeared to be popular with companies when communicating with their investors.

While face to face methods were the most popular methods of communication with investors, the responses revealed that companies commonly used written methods for communication with their employees. According to the evidence shown in Table 6.2, 6 out of 8 of the written methods (i.e. 75% of the written methods) were used by 37.5% or more companies to communicate with their employees in comparison to only 2 out of 8 of the written methods (i.e. 25% of the written methods) used by 37.5% or more companies to communicate with their investors. The results suggest that written methods were commonly used by companies when communicating with their employees as they provide detailed information about operations and organisation on regular basis. Some written methods were more popular than others were. For instance, a high percentage of companies used 'Newsletters' (81.3%), 'Information Notes to Stakeholders' (68.8%), 'Company Handbook' (68.8%), and 'Departmental Bulletins' (62.5%), when communicating with their employees.

TABLE 6.2 METHODS OF COMMUNICATION USED BY COMPANIES TO COMMUNICATE WITH THEIR EMPLOYEES AND WITH THEIR INVESTORS

	Companies	
Methods of Communication	**Employees (%)**	**Investors (%)**
Face to Face Method		
Group Meetings	43.8	75.0
Cascade Networks	62.5	12.5
Large Scale Meetings	25.0	50.0
Written Method		
Company Handbook	68.8	37.5
Information Notes to Stakeholder Representative	68.8	37.5
House Journals	25.0	31.3
Newsletters	81.3	31.3
Departmental Bulletins	62.5	6.3
Notices	50.0	12.5
Individual Letters to Stakeholders	37.5	31.3
Other Methods		
Information Points	25.0	18.8
Audio-visual Aids	37.5	31.3
E-mail	56.3	6.3

Notes: The percentages show the number of companies using communication methods.

6.2.1.3 Information Items Disclosed

The responses and the statistics for this section are shown in Table 6.3. In response to the question of 'which type of information items on organization (IOO) they disclose to their two stakeholder groups', companies responded that 50% or more of them reported all of the 11 (IOO) information items to their employees. In comparison, only 2 out of the 11 (i.e..18%) information items were disclosed by 50% or more companies to their investors. The reverse held true for 'Marketing Information' (MI). Only 4 out of 8 (i.e. 50%) marketing information (MI) items were disclosed by 50% or more companies to employees in comparison to all marketing information items being disclosed by 50% or more to investors. In other words, as far as the investors were concerned, companies mainly focused on disclosing 'Marketing Information' to them.

TABLE 6.3 INFORMATION ITEMS DISCLOSED BY COMPANIES TO THEIR EMPLOYEES AND INVESTORS

	Companies disclosing information to:	
Type of Information	**Employees (%)**	**Investors (%)**
Information on Organisation *(IOO)*:		
Working Objectives	75.0	31.3
Operating & Technical Information	75.0	43.8
Health & Safety	75.0	25.0
Inf. on Personnel	80.0	50.0
Working Conditions	62.5	00.0
Supervision & Management	62.5	12.5
Admin. Procedure	62.5	00.0
Training Development	81.3	25.0
Development In Technology	68.8	56.7
Equal Opportunity	62.5	12.5
Social Welfare	50.0	18.8
Marketing Information *(MI)*:		
Company Market Share	31.3	56.3
Company Market Segment	43.8	62.5
Mergers & Acquisition	75.0	81.0
Investment	56.3	62.5
Details of Products and Services	62.5	68.8
Future Plans on Development	37.5	56.3
Research and Development	43.8	62.5
Environmental Issues	75.0	62.5

Notes: The figures show percentage number of companies, which disclosed information.

The evidence is in alignment with the earlier expectation that companies would provide their employees with more detailed information on internal issues relating to the day to day running of the company. Despite companies concentrating on disclosing 'marketing information' (MI), mainly to their investors, there was also evidence that many companies disclosed a number of marketing information items to their employees. For instance, 75%, 63% and 56% of companies disclosed information on 'mergers and acquisition', 'details of products and services' and 'investment', respectively.

6.2.1.4 Two-way Communication and Consultation

The responses for two-way communication and consultation are shown in Table 6.4. The evidence suggests that the most popular stakeholder group with whom companies held two-way communication and consultation with were their employees.

TABLE 6.4 TWO-WAY COMMUNICATION AND CONSULTATION

(i) Dialogue Circles

	Yes (%)	If YES, How often?	If NO, How useful do you expect the dialogue circles to be for each stakeholder group
Investors	6.3	Once a year	Not at all useful
Employees	62.5	2-3 times a year	Not very useful
Customers	50	3-4 times a year	Not very useful
Suppliers	50	Twice a year	Not very useful
Public	6.7	-	Not at all useful

(ii) Joint Consultation

	Yes (%)	If YES, How often?	If NO, How useful do you expect the joint consultation method to be for each stakeholder group
Investors	31.3	Twice a year	Not at all useful
Employees	66.7	2-3 times a year	Not very useful
Customers	33.3	3-4 times a year	Not very useful
Suppliers	26.7	Three times a year	Not very useful
Public	13.3	2-3 times a year	Not at all useful

(iii) Attitude Survey:

	YES (%)
Investors	31.3
Employees	66.7
Customers	33.3
Suppliers	26.7
Public	13.3

(iv) Suggestion Schemes

	YES (%)
Investors	6.7
Employees	64.3
Customers	21.4
Suppliers	7.1
Public	0

Notes: The figures show percentage number of companies, which used the two-way communication and consultation methods.

As it is shown in Table 6.4, investors did not take part in either quality circles, nor joint consultation committees, nor attitude surveys. Both dialogue circles and joint consultation required investors' involvement in internal issues. As it will be discussed later, investors clearly indicated that they were not interested in being involved in the internal affairs as they would find it too time consuming. Most companies claimed that they would not find dialogue circles with investors useful.

6.2.2 Analytical Discussion

The findings of section 6.2.1.1 answer the fifth supporting research question, which was concerned with 'stakeholder identification' and whether companies attach different importance to their stakeholder groups. As it was discussed in section 3.4.1, 'stakeholder identification' can be regarded as one of the fundamental characteristics of 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR). It was also argued that by definition the relationships between companies and each of their stakeholder groups vary. Hence, it is important for companies to recognise this so that they can have a better understanding of the values and, subsequently, the information requirements of their stakeholder groups. In the author's view, if companies treat their stakeholders equally and fail to recognise the differences between these groups, they are unlikely to use appropriate methods of communication and would not be in a position to disclose the relevant information to stakeholders.

The findings of this section illustrate that companies attached different importance to their stakeholder groups with investors being the most important stakeholder group. This supports the findings of the previous chapter suggesting that companies pay more attention to those stakeholder groups who have financial interests in companies when disclosing non-financial information. According to Ullmann (1985), the most powerful stakeholder group is the one who has control over the most vital resources. In the case of UK companies, investors can be regarded as the most important stakeholder group as they have control over financial resources.

Employees and customers were found to be the second and third most important stakeholder groups, respectively. An interesting finding was that most companies had found the public to be more important than their suppliers. In the author's view, companies could have regarded the public as comprising potential new customers, potential new employees and potential new investors and lenders. If companies intended to expand or to raise finance or to attend new employees, they need to have a sound public image. However, as it was explained in *Chapter 4*, only two stakeholders were approached in this study. They were investors and employees.

While investors' interests can be regarded to be mainly financial, employees' interests can be regarded to have a combination of financial and non-financial interests. For instance, employees are concerned with job stability and pecuniary benefits as well as with issues such as working conditions, training programmes, equal opportunity and communication with employees.

The findings of this section suggest that by 1997, companies were still using share ownership as the main basis for stakeholder classification. In other words, control over the financial resources was determining stakeholders' power. This provided further evidence that UK companies mainly concentrated on financial aspects. This finding is also in alignment with the recommendations stated in the Hampel report published in 1998, proposing that companies need to disclose information to their different stakeholders as long as doing so is in the best interest of the investors. In other words, the Hampel report elevated the mentality of being more financially oriented.

As different stakeholder groups have different values and expectations, the nature of dialogue between companies and stakeholder group was expected to differ with each stakeholder group (i.e. the sixth supporting research question). In section 3.4.2, stakeholder dialogue was considered to have three aspects. The findings of this section showed that as far as each aspect was concerned, companies claimed to have treated their two stakeholder groups differently.

The evidence showed that 75% of companies held group meetings with investors in comparison to only 43.8% of companies using the same method for employees. In general, face to face methods were more popular to communicate with investors than with employees. Conversely, the responses showed that companies generally used written methods when communicating with their employees. As it was explained earlier, employees are internal stakeholders who are not only financially interested in the company but are also interested in matters such as 'Training', 'Working Conditions', 'Equal Opportunity', 'Health and Safety', etc. As they need to know the details on non-financial aspects, written methods are appropriate, providing them with detailed information. For instance, it was shown that companies used e-mail mainly when communicating with their employees as e-mail provided them with an excellent opportunity to inform their employees of the day-to-day activities within their organization and what is taking place in different parts of the organization.

A similar difference was found for the second aspect of stakeholder dialogue (i.e. information items disclosed to stakeholder groups). Once again, the findings suggested that companies disclosed information items that were expected to be relevant to each group. This meant that companies concentrated on disclosing marketing information to investors and focused on disclosing information on organization to their employees. This indicated that companies took account of their stakeholders' information requirements and provided them with the relevant information.

For the third aspect of stakeholder dialogue (i.e. two-way communication and consultation), the responses showed that the highest level of two-way communication and consultation was held with employees. However, whether companies made the right choice of two-way communication and consultation methods for each stakeholder group cannot be known until the responses from the two stakeholder groups are also analysed. The same holds true for the other two aspects of stakeholder dialogue (i.e. 'methods of communication' and 'information items disclosed to stakeholder group').

Even though companies have identified their stakeholder groups, it does not necessarily imply that they have understood their stakeholder groups' values or whether they have indeed taken them into account and held dialogue with them. In addition, the responses from both investors and employees need to clarify (a) if stakeholders found communication methods and information items used by companies to communicate with them to be relevant and useful and (b) whether there were any discrepancies between the responses from companies and investors. In the latter case, if there were any discrepancies the possible reasons and what implications they had need to be explored.

As it was explained at the beginning of this chapter (in section 6.1), the overall analysis that would answer the sixth supporting research question will be discussed in the concluding section (i.e. section 6.6).

6.3 RESPONSES FROM INVESTORS

The responses received from investors are presented in Tables 6.5, 6.6 and 6.7. When investors were asked about the methods of communication, information items disclosure and two-way communication and consultation, they were also asked about their preferences and how useful they found each method or each information item. In this way, it was possible to compare investors' preferences with the actual situation. This would enable us to see if companies met the information requirements of investors and used the appropriate methods of communication.

6.3.1 Descriptive Analysis

6.3.1.1 Methods of Communication

When investors were asked about methods of communication, 73.3% of investors responded that they had used 'group meetings'. This method was the most popular method and was preferred by 80% of investors (see Table 6.5). Large-scale meetings were also popular (as claimed by 46.7% of investors). The institutional investors, who took part in this survey, stated that they preferred 'face to face' methods, and if they felt they needed to communicate with companies, they would do so by contacting them directly.

Little preference was shown for written methods or any of the other methods that were either used or preferred by the investors. Some investors expressed that due to the time constraints they faced, they were hardly interested in detailed information on the internal aspects of companies.

Among the written methods, the ones providing an overall picture of the company were mainly used and preferred by investors. For instance, 40% of investors claimed that companies used 'information notes to stakeholders' representatives', when communicating with them, even though this method was preferred by only 13% of investors.

TABLE 6.5 METHODS OF COMMUNICATION USED TO COMMUNICATE WITH INVESTORS

Methods of Communication	Percentage Number of Investors	
	Used (%)*	Preferred (%)♣
Face to Face Method		
Group Meetings	73.3	80.0
Cascade Networks	6.7	6.7
Large Scale Meetings	46.7	13.3
Written Method		
Company Handbook	6.7	20.0
Information Notes to Stakeholder Representative	40.0	13.3
House Journals	13.3	6.7
Newsletters	26.7	13.3
Departmental Bulletins	20.0	6.7
Notices	6.7	6.7
Individual Letters to Stakeholders	6.7	6.7
Other Methods		
Information Points	0.00	0.00
Audio-visual Aids	20.0	13.3
E-mail	13.3	20.0

Notes: * The figures show percentage number of investors who used each communication method.
♣ The figures show the percentage number of investors who preferred to use the method.

6.3.1.2 Information Items Disclosed

The evidence, shown in Table 6.6, illustrates that apart from financial information, which was used by almost all investors (e.g. mergers and acquisitions, 100%; and investment, 100%), there were some non-financial information items, which were used by investors to a large degree. 'Details on products and services' (e.g. used by 92.3% of investors) and 'Future plans on development' (e.g. used by 84.6% of investors) are relevant examples. Investors found that all of the 'marketing information' (MI) items disclosed to them to be 'very' useful. In comparison to the marketing information, 57% or more investors claimed that 3 out of 11 (i.e. 27%) information items on organization had been used by them.

TABLE 6.6 INFORMATION ITEMS DISCLOSED TO INVESTORS

Type of Information	Percentage Number of Investors	
	Used (%)*	Usefulness♠
Information on Organisation *(IOO)*:		
Working Objectives	57.1	3.5
Operating & Technical Information	21.4	2.3
Health & Safety	21.4	2.0
Information on Personnel	85.7	3.9
Working Conditions	7.1	2.3
Supervision & Management	35.7	3.3
Administration Procedures	7.1	2.5
Training Development	21.4	2.8
Development In Technology	57.1	3.5
Equal Opportunity	21.4	1.7
Social Welfare	00.0	2.2
Marketing Information *(MI)*:		
Company Market Share	84.6	3.7
Company Market Segment	92.3	3.6
Mergers & Acquisition	100.0	3.6
Investment	100.0	3.6
Details of Products and Services	92.3	3.6
Future Plans on Development	84.6	3.6
Research and Development	-	-
Environmental Issues	-	-

Note: * The figures show percentage number of companies, which disclosed information.
♠ The degree of usefulness found by investors, 1=Not at all useful, 2=Not very useful, 3=Somewhat useful, 4=Very useful.

Overall, the evidence shows that investors found information on internal matters of organizations less 'useful'(i.e. only 4 out of 11, or 36% of, information items on organization, IOO) were found to be somewhat useful as compared to all of the marketing information items, which were found to be 'very' useful. Although investors did not claim to receive information on internal matters of the organization, there were a few information items on internal matters that were highly used by investors and were generally found to be useful by them. These information items were: 'information on personnel' (i.e. used by 86% of investors and found to be 'very' useful), 'working objectives', 'development in technology' (i.e. both were used by 57% of investors and found to be 'very' useful) and 'Supervision and Management' (i.e. used by 35.7 of investors and found to be 'somewhat' to 'very' useful).

6.3.1.3 Two-way Communication and Consultation

The responses received from investors showed that only 14% of them took part in dialogue circles. The remaining investors (i.e. 86%) who claimed *not* to take part in dialogue circles showed no interest to do so. In the case of joint consultation, a large number of investors (i.e. 1 - 42.9% = 57.1%) who replied claimed that they did not take part in joint consultation with companies and even if they did, they would not find it 'very' useful. 42.9% of investors had found the consultation process 'very' useful.

The responses also revealed that about half of the respondents had received attitude surveys. At the same time, some respondents claimed that they received surveys whenever companies were in trouble. None of the respondents indicated to have received any suggestion schemes.

TABLE 6.7 TWO-WAY COMMUNICATION AND CONSULTATION USED TO COMMUNICATE WITH INVESTORS

	YES (%)*	If YES, How usefulness did you find each method	If NO, How interested are you to take part in either of the four methods
(i) Dialogue Circles	14.3	Somewhat useful	Not very interested
(ii) Joint Consultation	42.9	Very useful	Not very interested
(iii) Attitude Survey	50.0	Somewhat useful	Not very interested
(iv) Suggestion Schemes	-	-	Not very interested

Note: * Percentage number of investors who used two-way communication and consultation method.

6.3.2 Analytical Discussion

The main objective of investors is to focus on financial issues rather than being concerned with non-financial matters. This is supported by the findings that investors were not interested in using written methods which would have provided them with more details about the day-to-day operations of companies. The only method of communication commonly used by investors was group meeting (i.e. general meeting held with investors).

Even though there were only a few non-financial information items which were of interest to investors and were found to be useful by them (e.g. 'Information on Personnel', 'Development in Technology' and 'Working Objectives' and 'Supervision and Management'), the overall findings suggested that investors were not interested in information items about non-financial issues. For instance, the findings showed that investors were not interested in 'Equal Opportunity', 'Health and Safety', 'Working Conditions' and 'Social Welfare'[82]. Conversely, all of the information items related to the overall financial position of companies were found to be 'very useful' by investors. The lack of interest by investors in two-way communication and consultation provided further support, suggesting that investors were not interested in non-financial aspects of companies.

To explain why investors pay attention to information related to financial positions of companies and to only a few non-financial information items, we look at the changes in the percentage number of institutional investors in the UK. As mentioned in *Chapter 3*, 70% to 80% of shares in the UK are held by institutional investors (*Modern Company Law*, 1999), who can play a significant role to improve managerial structures of companies (Lunt, 1992; and Huddart, 1993). According to Keasy and Wright (1997), "the major growth in institutional shareholders is mainly the result of the growth in pension funds" (p24-25). The pension funds are not 'owners', they are investors (Drucker, 1976) and their job is to invest the beneficiaries' money in the most profitable

[82] This study categorised these information items as non-managerial information.

investment. Hutton (1995) argues that "pension funds ... have become classic absentee landlords, exerting power without responsibility and ... without reciprocal obligation as owners" (p304). Many institutional shareholders view shares as commodities that can be readily tradable in an active market and many of them adopt a short-termistic view of their holdings (Charkham, 1990).

The author takes the view that the growing percentage of holdings by institutional investors and the way fund managers view it to be their responsibility to maximise their beneficiaries' investment explains why most institutional investors' attentions were paid to financial matters and why investors were interested in neither 'written methods' nor in 'Information on Organization'.

The best way to explain why there were few non-financial information items in the interest of institutional investors is by looking at the separation of ownership and control. Since the beginning of the formation of modern companies in the late 19th century, owners have been concerned with managers maximizing their own interests rather than maximizing owners' return. Short and Keasey (1997) showed that the presence of institutional shareholders could have a positive effect on corporate performance by affecting the relationship between performance and other ownership interests. The findings of this section shows that the non-financial information items, which were of interest to investors, were more on managerial aspects (i.e. information on personnel) and would indicate whether managerial structure was designed in a way to protect owners' interests. Even though it was argued earlier that institutional investors are concerned with profit maximiztion, the Cadbury committee recommended institutional investors to take note of managerial structures of companies.

The Cadbury Report (Cadbury Committee, 1992) expects institutional investors to take on the role of monitoring corporate managers on behalf of smaller shareholders so that management would act in the best interest of the owners. According to the Cadbury Report "Given the weight of their votes, the way in which institutional shareholders use the power to influence the standards of governance is of fundamental importance."(para. 6.10)

The above explanation illustrates why investors paid attention to managerial information as well as financial information. The findings also showed that little attention had been paid to what this study regards as non-governance information. In the author's view, the findings of this section clearly support the way investors are believed to be interested in financial matters and pay little attention to non-financial issues. The findings also suggest that despite the absence of a two-way communication and consultation between investors and companies (i.e. little stakeholder dialogue), investors were provided with the information that they were interested in (i.e. there was not much difference between what investors used and what they preferred to use).

6.4 RESPONSES FROM TRADE UNIONS

6.4.1 Descriptive Analysis

The responses from trade unions are shown in Tables 6.8, 6.9 and 6.10. Trade union representatives were asked about their preferences for methods of communication, information items they wished to receive as well as two-way communication and consultation with companies.

6.4.1.1 Methods of Communication

The responses revealed that the most popular method of communication was group meeting (used by 90% of respondents – as shown in Table 6.8). Although most methods were in use by more than 50% of respondents, apart from 'Group Meetings', the most popular methods were mainly written methods (e.g. 'Company Hand books', 70%; 'Notices', 70%; 'Information Notes to Stakeholder Representatives', 60%; 'Departmental Bulletins', 60%; and 'Individual Letters to Stakeholders', 60%).

TABLE 6.8 METHODS OF COMMUNICATION USED TO COMMUNICATE WITH UNION REPRESENTATIVES

Methods of Communication	Percentage Number of Union Representatives	
	Used (%)*	Preferred (%)♣
Face to Face Method		
Group Meetings	90.0	80.0
Cascade Networks	50.0	10.0
Large Scale Meetings	50.0	40.0
Written Method		
Company Handbook	70.0	50.0
Information Notes to Stakeholder Representative	60.0	10.0
House Journals	40.0	30.0
Newsletters	60.0	30.0
Departmental Bulletins	50.0	50.0
Notices	70.0	40.0
Individual Letters to stakeholders	60.0	20.0
Other Methods		
Information Points	50.0	30.0
Audio-visual Aids	60.0	20.0
E-mail	40.0	10.0

Notes: * The figures show percentage number of respondents.
♣ The figures show the percentage number of union representatives who preferred to use each method.

For all of the communication methods, the percentage number of respondents, for whom each method was used (see Table 6.8 – column 'used'), was considerably higher than the percentage number of respondent who preferred that method. There were only two communication methods for which the difference was not considerably large. They were: 'Large Scale Meetings' and 'House Journals'. In the case of 'Large Scale Meetings', while 50% of respondents claimed that companies used this method, only 40% of employees preferred this method. In comparison, 'Notices', which were also preferred by 40% of respondents, was used by 70% of employees.

Similar comparisons were observable between 'Departmental Bulletins' and 'Company Handbook'. The evidence, shown in Table 6.8, illustrates that while 'Departmental Bulletins' were used to communicate to 50% of employees, exactly the same number of employees (i.e. 50%) preferred using this method. When compared to 'Company Handbook', the same preference (i.e. 50%) was observed but with a considerably larger number of companies (i.e. 70%) who claimed to have used 'Company Handbook'. A similar discrepancy was observed for 'House Journals' and 'News Letters' when 40% of respondents used 'House Journals' with a preference rate of 30%. In comparison, 'News Letters', which had the same preference rate (i.e. 30%), were used by 60% of employees, which was a relatively higher percentage.

The above evidence shows that there are large discrepancies between the communication methods preferred by the trade union representatives and the communication methods that were used by institutional investors. When this is compared with the methods of communication used for investors (see section 6.3.1.1), the evidence shows that more different methods of communication were used for the communication with employees than for the communication with investors.

6.4.1.2 Information Item Disclosed

As it was argued in *Chapter 3*, the disclosure of information items relevant to stakeholders would require the use of appropriate communication methods. Evidence in this section shows 7 out of 10 (i.e. 70%) information items organization had been disclosed to 66.7% or more of the union representatives as compared to 3 out of 6 (i.e. about 50%) of marketing information items that had been disclosed to 66.7% or more union representatives. The evidence also showed that 9 out of 11 (i.e. 81.2%) information items on organization were found to be useful in comparison to only 3 out 6 9i.e. 50%) of marketing information items that were found to be useful.

TABLE 6.9 INFORMATION ITEMS DISCLOSED TO UNION REPRESENTATIVES

Type of Information	Trade Unions	
	Used (%)*	Usefulness♣
Information on Organisation (IOO):		
Working Objectives	100.0	3.3
Operating & Technical Inf.	*55.6*	*3.8*
Health & Safety	88.9	3.7
Information on Personnel	66.7	2.8
Working Conditions	88.9	3.0
Supervision & Management	77.8	2.7
Administration procedure	55.6	3.0
Training Development	*66.7*	*2.8*
Development In Technology	*44.4*	*2.8*
Equal Opportunity	66.7	2.4
Social Welfare	*55.6*	*3.2*
Marketing Information (MI):		
Company Market Share	77.8	2.8
Company Market Segment	*33.3*	*3.3*
Mergers & Acquisition	*66.7*	*1.8*
Investment	33.3	2.3
Details of Products and Services	*66.7*	*3.2*
Future Plans on Development	*66.7*	*2.4*
Research and Development	-	-
Environmental Issues	-	-

Note: * The figures show percentage number of respondents.
♣ The degree of usefulness found by employees, 1=Not at all useful, 2=Not very useful, 3=Somewhat useful, 4=Very useful.

In terms of whether companies disclosed information items that were found useful by employees, most discrepancies were observed for marketing information disclosed to employees. For instance, while information on 'Company Market Segment' was found to be 'somewhat' to 'very' useful, only 33.3% of respondents claimed to have received such information. The opposite holds true for information on 'Mergers and Acquisition', where 66.7% of respondents who received the information found the information 'not very' useful.

Another example of the observed discrepancy is for 'Details of Products and Services' and 'Future Plans on Development'. Even though the respondents had found the information on 'Details of Products and Services' to be considerably more useful than the information on 'Future Plans on Development' (i.e. 3.2 for the former as compared to 2.4 for the latter), the evidence suggested that the level of disclosure was exactly the same for both information items (i.e. both information items were disclosed to 67% of respondents).

Similar discrepancies were observed for 'Information on Organization' (IOO). For instance, only 55.6% of employees received 'Operating and Technical Information' even though the information item was found to be very useful. At the same time, similar response rates (55.6%) were observed for 'Social Welfare' and 'Administration Procedures', which were both found to be considerably less useful than 'Operating Technical Information'. Furthermore, the information items, which were found to be equally useful (i.e. 'somewhat' useful – 2.8 as shown in Table 6.9), were disclosed to different number of employees (i.e. 'Information on Personnel, 66.7%; 'Training Development', 66.7%; as compared to 'Development in Technology', 44.4%).

The evidence clearly suggests that there were many differences between information items disclosed to employees and the information items that were found to be useful by them. When comparing this with information disclosed to investors, companies did not take into account their employees' preferences.

6.4.1.3 Two-way Communication and Consultation

In the case of two-way communication and consultation, the level of interaction with employees was expected to be higher than the level of interaction with investors'. This was because employees on were expected to be more interested in the details of the corporate operations than investors were.

As it is shown in Table 6.10, the evidence illustrates that among the four selected methods of communication and consultation, the most popular method and the most useful method was 'joint consultation'. All respondents had joint consultation with their companies. Among the items listed in the questionnaire, the results indicated that 'welfare' and 'pay related issues' had the lowest positive response rates.

The evidence shows that, on average, attitude surveys and suggestion schemes were unpopular. Suggestion schemes were found to be unpopular in communication with employees. On occasions when suggestion schemes were available to employees, employees did not find them particularly useful. The issues companies were commonly questioning employees were related to their internal operations to improve working conditions, to increase productivity and to reduce costs. In other words, issues that would increase the overall managerial performance were found to be specifically focused on rather than issues associated with employees' 'Welfare', 'Training', 'Staffing Levels', and 'New Equipment'. For example, companies were using attitude surveys and suggestion schemes to ask employees about 'Working Conditions' (80%), 'New Ways of Working' (60%), 'Output and Quality' (40%), 'Pay Related Issues'

(40%), 'Methods of Working' (44.4%), 'Increasing Productivity' (44.4%) and 'Cutting Costs' (44.4%).

TABLE 6.10 TWO-WAY COMMUNICATION AND CONSULTATION USED TO COMMUNICATE WITH UNION REPRESENTATIVES

	YES (%)*	If YES, How useful did you find each method
(i) Quality Circles	66.7	Note very useful
(ii) Joint Consultation		
Working Conditions	100	Somewhat useful
New Ways of working	88.9	Somewhat useful
Output and Quality	77.8	'Not very' to 'somewhat' useful
Training	77.8	Somewhat useful
Health & Safety	88.9	'somewhat' to 'very' useful
New Equipment	77.8	Somewhat useful
Staffing	100	Somewhat useful
Welfare	66.7	Somewhat useful
Pay-related issues	66.7	'Not very' to 'Somewhat' useful
(iii) Attitude Survey		
Working Conditions	80	Not very useful
New Ways of working	60	'Not very' to 'somewhat' useful
Output and Quality	40	Not very useful
Training	20	Not very useful
Health & Safety	40	Not very useful
New Equipment	20	'Not at all' to 'Not very' useful
Staffing Levels	20	Not very useful
Welfare	20	Not at all useful
Pay-related issues	40	'Not at all' to 'Not very' useful
(iv) Suggestion Schemes		
Methods of Working	44.4	Somewhat useful
Increasing productivity	44.4	Somewhat useful
Cutting Costs	44.4	'Not very' to 'Somewhat' useful
Pay-related	11.1	'Not very' useful
Any other aspect of the work environment which might benefit the organisation and/or its work force	33.3	Somewhat useful

Note: * The figures representing the degree of usefulness are all averages.

6.4.2 Analytical Discussion

The overall findings of this section suggests that union representatives were more demanding in acquiring information on both financial and non-financial issues related to companies than investors were. For instance, trade union representatives appeared to use both 'Information on Organisation' and 'Marketing Information'. However, union representatives appeared to be more interested in 'Information on Organisation'.

The reasons why employees were more demanding in acquiring information could be explained using the nature of their relationship with companies. Employees are internal stakeholders whose day-to-day lives are affected not only by the financial positions of their companies but also by matters such as 'Working Conditions', 'Health Care', 'Relevant Training', 'Equal Opportunity' and 'New Technology'. As far as some of these non-financial issues are concerned, companies are legally required to consult their employees. Examples of these statutory requirements, among many others are Health and Safety at Work Act 1974, The Social Security Pension Act 1975, Race Relations Act 1976, Equal Pay (amendment) Regulations 1983, Sex Discrimination Act 1986, Trade Union Reform and Employment Rights Act 1993 and Disability Act 1995.

Despite the statutory requirements, the evidence clearly showed that not all of the trade union representatives were consulted about these issues. This finding is in alignment with the findings of Adams, Hill and Roberts (1995: p26), showing that UK companies were not found to fully comply with the legal requirements and did not disclose information on different issues related to employees. For instance, Adams *et al* (1995) found that 56% of UK companies had disclosed information on 'Health and Safety', 60% on 'Training' and only 16% on 'Trade Unions and Pay Rewards'. These findings suggest that even in the presence of different legal requirements, companies ignored employees' interests at times.

The evidence also suggests that unlike the way companies had disclosed information to their investors, they did not provide their employees with a bank of information on various issues. It was found that while union representatives claimed that they would have found certain information items useful, only a small number of them responded that those information items had been disclosed to them.

In the author's view, another important aspect to consider when talking about a two-way communication and consultation is to seek evidence that communication was indeed two-way. This implies that not only companies disclosed information to their employees to keep them informed, companies also needed to find out about the information requirements of their employees. In order to do so, companies needed to provide their employees with opportunities to express their opinions and views. The findings from this study illustrated that there was a considerably higher level of a two-way communication and consultation between companies and trade union representatives than between companies and investors. Despite the existence of stakeholder dialogue and companies' awareness of the information requirements and preferences of their employees, the responses from the trade union representatives showed that the methods that were used were not always highly preferred by them.

While companies had, for example, asked their employees many questions about 'Pay-related Issues' and 'Outputs and Quality', union representatives did not generally find these questions to be useful. In the author's view, the reason for this could be due to the way companies had phrased the questions and their failure in addressing their employees' issues. Alternatively, it could be due to the lack of opportunity being given to employees to discuss some of their issues. The information items, which companies had used in two–way communication and consultation and were found to be useful by their employees, were on issues directly related to the overall productivity. For instance, 'new ways of working' was the information item that had been asked in all of the three methods of two-way communication and consultation (i.e. joint consultation, attitude survey and suggestion schemes) and was found to be useful by most of the union representatives.

The author takes the view that the findings of this section support the earlier findings for the fifth supporting research question, illustrating that employees are of less importance to companies than investors. The author believes that despite the comprehensive disclosure of information on employees' issues and the existence of dialogue between companies and union representatives, there were instances when companies had not fully met the information requirements of their employees. This suggests that companies had disclosed information at their own discretion when doing so suited them. This is supported by the evidence that companies did not always disclose information items that were found to be useful by their trade union representatives. In other words, companies could have disclosed information to project a certain image of them. For instance, companies could have disclosed information to change externals' perception without changing their behaviours (i.e. the second strategy introduced by Lindblom C. K., 1994).

6.5 Comparison Between the Three Groups of Respondents

In this section, the responses from the three groups of respondents (e.g. companies, investors and employees) are compared in two pairs of companies-investors and companies-employees. The comparison is expected to illustrate whether companies overstated or understated the dialogue with their stakeholders.

6.5.1 Descriptive Analysis

This section looks at the overall responses from companies and the two stakeholder groups (i.e. investors and employees). In this section, the comparison between the responses from companies and the two stakeholder groups are represented by measuring the discrepancies between company responses and the responses received from companies and the responses received from each of the two stakeholder groups. This would allow us to approximately compare the responses. The reason for this is that not all companies had their employees and institutional investors taking part in the survey. The discrepancies in responses were measured by subtracting the responses from each of the two stakeholder groups from the responses received from companies (see columns C and F in Tables 6.11, 6.12 and 6.13). The discrepancies are presented in the form of three graphs (Figures 6.1, 6.2 and 6.3) in order to facilitate an easier comparison. The difference between companies' and investors' responses is represented by dark shaded histograms and the difference between companies' and employees' responses is represented by lightly shaded histograms.

Each graph needs to be viewed in parallel with its table, representing the data relevant to that graph. Numbers 1, 2, 3, ... on the x-axis of each graph corresponds to the first column of the table used in parallel with that graph.

The observed discrepancies were either positive or negative. A positive discrepancy shows that companies claimed to use more communication methods or to disclose more information items or to hold more two-way communication and consultation than their stakeholders claimed. In the case of negative discrepancies, the reverse holds true.

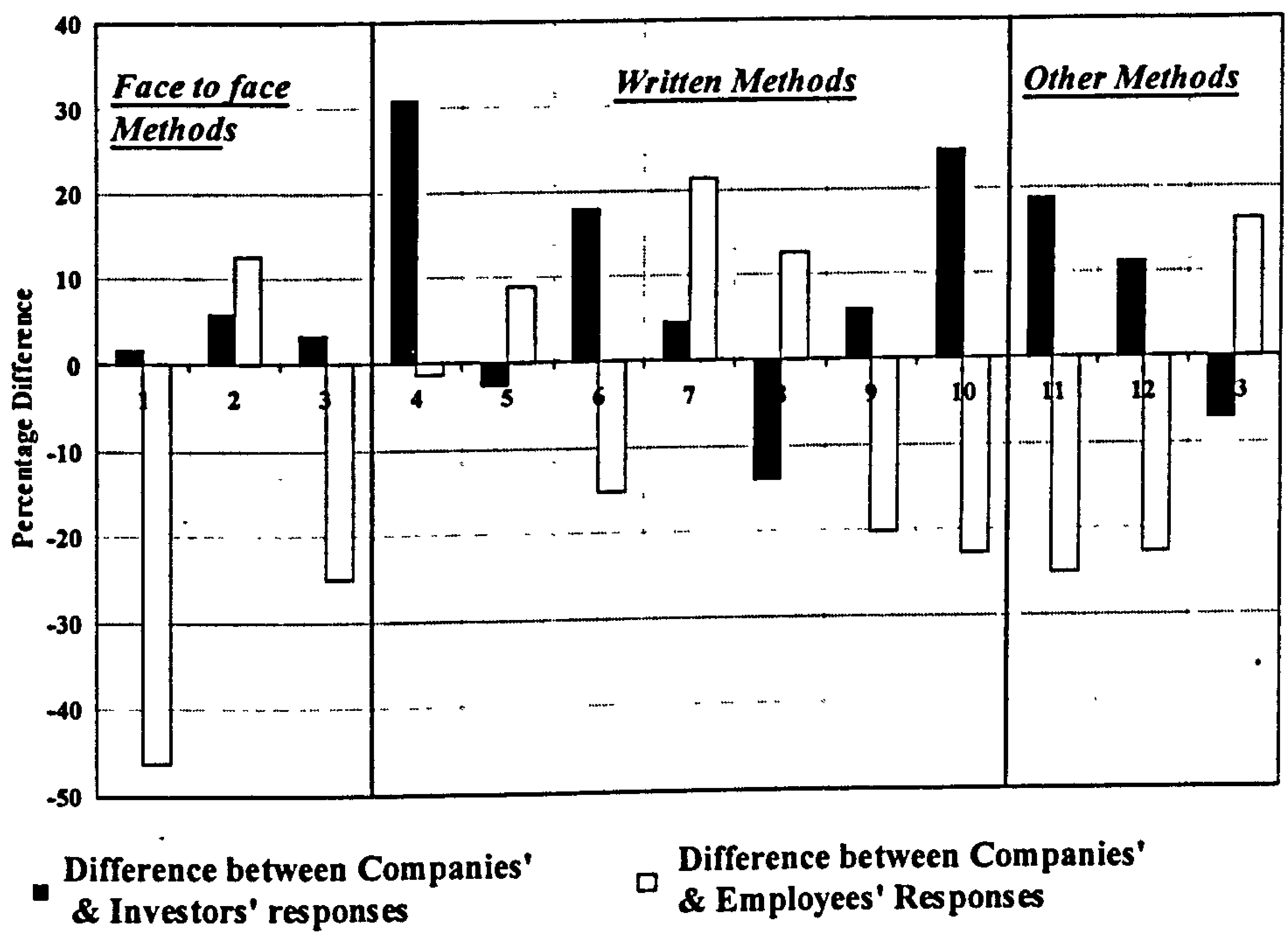
6.5.1.1 Discrepancies in Responses for Methods of Communication

According to the graph shown in Figure 6.1, most dark shaded histograms reveal positive discrepancies. This suggests that companies claimed to use more communication methods than the methods that were claimed by investors to be used. In comparison, many of the lightly shaded histograms showed negative discrepancies, suggesting that trade unions representatives claimed that they were more interested to use different communication methods than companies had offered them.

When the graph was divided into three parts with each part presenting one category of communication methods, different observations were made for each category. For instance, most dark shaded histograms for 'face to face' method showed small differences between companies' and investors' responses, indicating that companies were, indeed, taking account of their investors' preferences. In comparison, two of the lightly shaded histograms presented considerably large differences between companies' and employees' responses, where a considerably larger number of employees claimed to use 'Group Meetings' and 'Large Scale Meetings' (i.e. differences for 'Group Meeting' and 'Large Scale Meetings' were –46.2% and –25%, respectively).

In the case of written methods, the observation of large positive discrepancies between companies' and investors' responses suggest that most companies offered varieties of written methods while only a small number of investors used them (i.e. investors were less in favour of written methods). As for the employees, no conclusive observation could be made (i.e. 3 out of 7 lightly shaded histograms presented positive differences while 4 of them presented negative differences). In the case of other communication methods, companies gave preferences to their investors and offered them more means of communication than they offered their employees.

FIGURE 6.1 METHODS OF COMMUNICATION



Notes: The numbers on the x-axis corresponds to the Methods of communication shown in Table 6.11.

TABLE 6.11 METHODS OF COMMUNICATION

The numbers on the x-axis	Methods of Communication	Communication with Investors		Difference Between Companies' & Investors' responses (%)	Communication with Employees		Difference Between Companies' & Employees' responses (%)
		Companies' responses (%)	Investors' responses (%)		Companies' responses (%)	Employees' responses (%)	
		A	B	A – B = C	D	E	D - E = F
1.	Group Meetings	75	73.3	1.7	43.8	90	-46.2
2.	Cascade Networks	12.5	6.7	5.8	62.5	50	12.5
3.	Large Scale Meetings	50	46.7	3.3	25	50	-25
4.	Company Handbook	37.5	6.7	30.8	68.8	70	-1.2
5.	Information Notes to Stakeholder Representative	37.5	40	-2.5	68.8	60	8.8
6.	House Journals	31.3	13.3	18	25	40	-15
7.	Newsletters	31.3	26.7	4.6	81.3	60	21.3
8.	Departmental Bulletins	6.3	20	-13.7	62.5	50	12.5
9.	Notices	12.5	6.7	5.8	50	70	-20
10.	Individual Letters to Stakeholders	31.3	6.7	24.6	37.5	60	-22.5
11.	Information Points	18.8	0	18.8	25	50	-25
12.	Audio-visual Aids	31.3	20	11.3	37.5	60	-22.5
13.	E-mail	6.3	13.3	-7	56.3	40	16.3

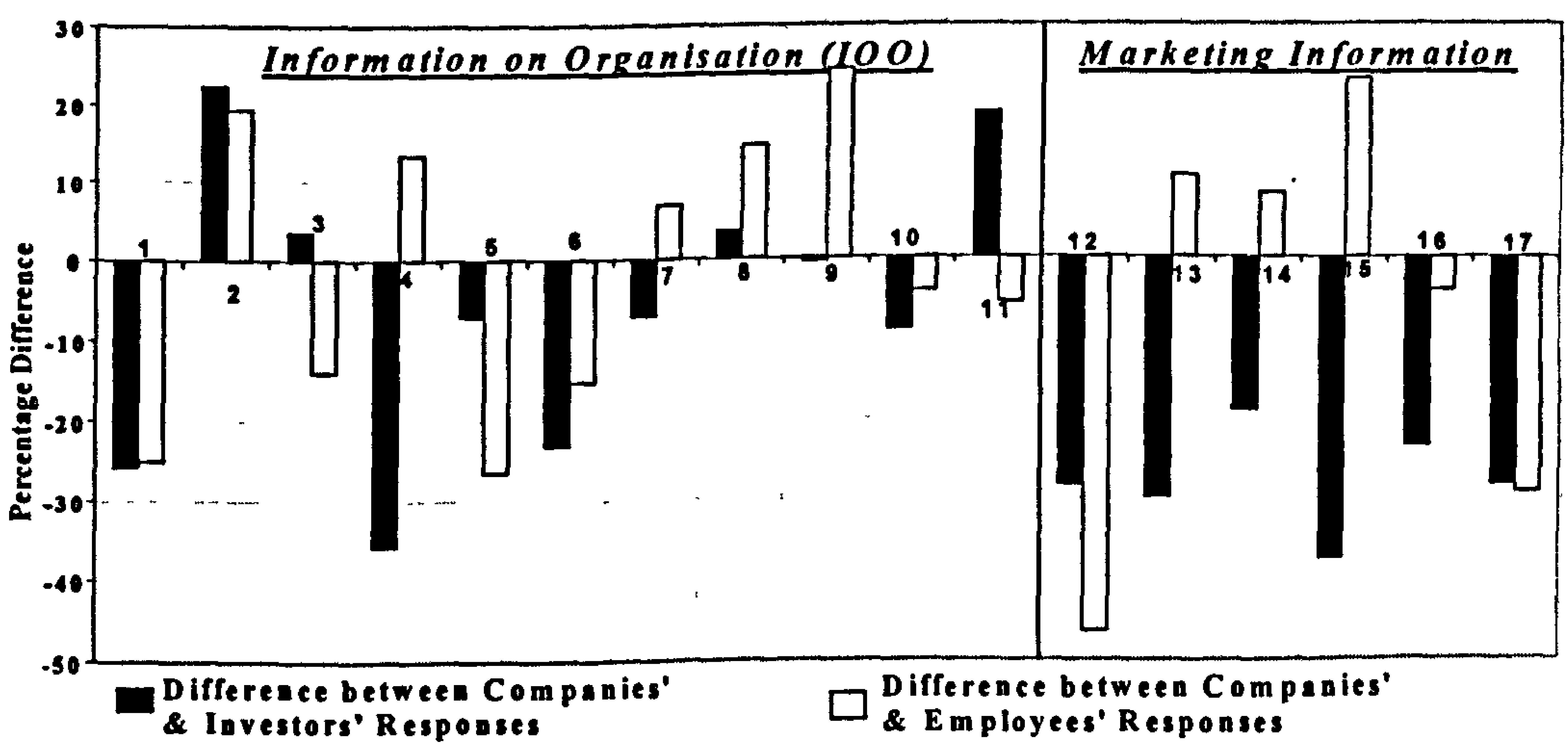
Notes: The figures represent the percentage number of responses.

6.5.1.2 Discrepancies in Responses for Information Items Disclosed

Despite the findings of the previous section suggesting that companies used appropriate communication methods for their investors, the findings of this section shows that this was not necessarily the case for information items. Large negative discrepancies (shown by dark shaded histograms in Figure 6.2) suggests that investors received larger volume of information items than companies had claimed to disclose to them. This holds true particularly for 'marketing information'.

For employees, positive differences were observed suggesting that companies claimed to disclose more information items to their employees than employees claimed to have received. It is possible that companies mis-represented their level of information disclosure to their employees by claiming that they disclosed a higher level of information than they disclosed in reality.

FIGURE 6.2 INFORMATION ITEMS DISCLOSED



Notes: The numbers on the x-axis corresponds to the Methods of communication shown in Table 6.12.

TABLE 6.12 INFORMATION ITEMS DISCLOSED TO INVESTORS AND EMPLOYEES

The numbers on the x-axis	Information Items Disclosed	Communication with Investors		Difference Between Companies' & Investors' responses (%)	Communication with Employees		Difference Between Companies' & Employees' responses (%)
		Companies' responses (%)	Investors' responses (%)		Companies' responses (%)	Employees' responses (%)	
		A	B	A – B = C	D	E	D - E = F
1.	Working Objectives	31.3	57.1	-25.8	75	100	-25
2.	Operating & Technical Information	43.8	21.4	22.4	75	55.6	19.4
3.	Health & Safety	25	21.4	3.6	75	88.9	-13.9
4.	Inf. on Personnel	50	85.7	-35.7	80	66.7	13.3
5.	Working Conditions	0	7.1	-7.1	62.5	88.9	-26.4
6.	Supervision & Management	12.5	35.7	-23.2	62.5	77.8	-15.3
7.	Admin. Procedure	0	7.1	-7.1	62.5	55.6	6.9
8.	Training Development	25	21.4	3.6	81.3	66.7	14.6
9.	Development in Technology	56.7	57.1	-0.4	68.8	44.4	24.4
10.	Equal Opportunity	12.5	21.4	-8.9	62.5	66.7	-4.2
11.	Social Welfare	18.8	0	18.8	50	55.6	-5.6
12.	Company Market Share	56.3	84.6	-28.3	31.3	77.8	-46.5
13.	Company Market Segment	62.5	92.3	-29.8	43.8	33.3	10.5
14.	Mergers & Acquisition	81	100	-19	75	66.7	8.3
15.	Investment	62.5	100	-37.5	56.3	33.3	23
16.	Details of Products and Services	68.8	92.3	-23.5	62.5	66.7	-4.2
17.	Future Plans on Development	56.3	84.6	-28.3	37.5	66.7	-29.2

Notes: The figures represent the percentage number of responses.

6.5.1.3 Discrepancies in responses for Two-way Communication and Consultation

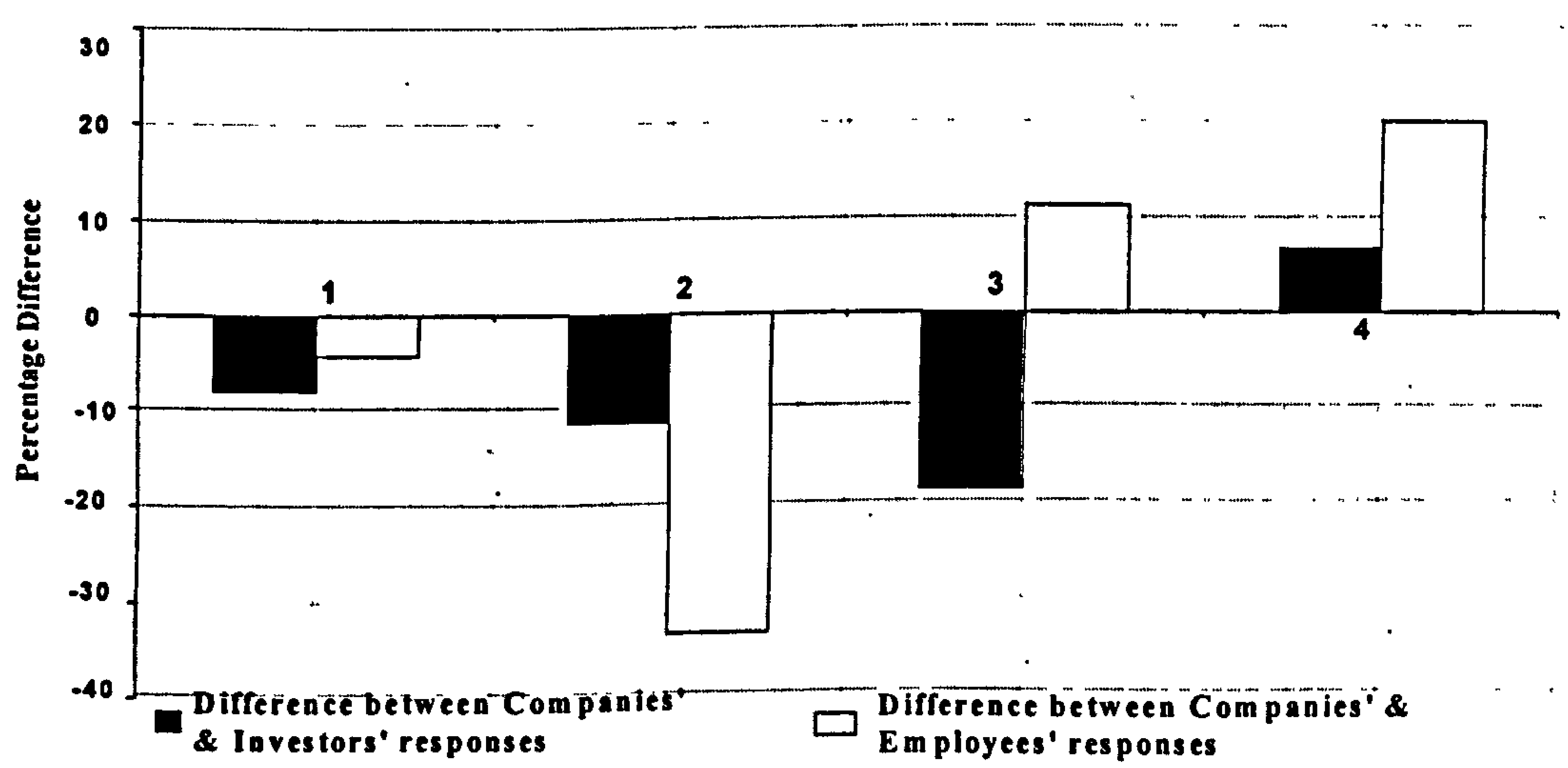
The discrepancies between responses are shown in Figure 6.3. According to the responses for dialogue circles, there were relatively small negative discrepancies between corporate responses from each of the two stakeholder groups and that of companies. According to both investors and employees, the number of quality circles that they had attended was more than companies had claimed to hold with each of them. Although the observed discrepancies are small, they suggest that the two stakeholder groups were more willing to take part in dialogue circles.

Similar observations were made for joint consultation but this time the observed difference was considerably larger for employees than for investors. This suggests that the high interest shown by employees in taking part in joint consultation was taken into account by companies.

For attitude surveys and suggestion schemes, positive discrepancies between employees' and companies' responses illustrate that companies claimed to make more attempts to find out the information requirements of their employees than those of their investors. More interest was shown by companies to seek out their stakeholders' viewpoints using suggestion schemes.

The overall findings of this section are analysed and discussed in the following section.

FIGURE 6.3 DISCREPANCIES IN RESPONSES FOR TWO-WAY COMMUNICATION AND CONSULTATION



Notes: The numbers on the x-axis corresponds to the Methods of communication shown in Table 6.13.

TABLE 6.13 TWO-WAY COMMUNICATION AND CONSULTATION

The numbers on the x axis	Methods of two-way Communication and consultation	Communication with Investors		Difference Between Companies' & Investors' responses (%)	Communication with Employees		Difference Between Companies' & Employees' responses (%)
		Companies' responses (%)	Investors' responses (%)		Companies' responses (%)	Employees' responses (%)	
		A	B	A – B = C	D	E	D - E = F
1.	Quality circles	6.3	14.3	-8	62.5	66.7	-4.2
2.	Joint Consultation	31.3	42.9	-11.6	66.7	100	-33.3
3.	Attitude Survey	31.3	50.0	-18.7	66.7	55.6	11.1
4.	Suggestion schemes	6.7	0	6.7	64.3	44.4	19.9

Notes: The figures represent the percentage number of responses.

6.5.2 Analytical Discussion

This section compares the responses from companies and two of their stakeholder groups (i.e. investors and employees). The findings show that there are discrepancies between the responses from companies and the two stakeholder groups..

In the case of methods of communication, the findings show that companies claimed to offer the use of more methods of communication to their investors than investors claimed to have used. In the author's view, companies could have used more different methods of communication than their investors were interested in. For instance, 37.5% of companies mentioned the use of 'Company Handbooks' in comparison to only 6.7% of investors. At the same time, there were cases where investors' responses showed slightly higher use of some methods of communication with investors, giving some negative discrepancies. As in most of these cases, the negative discrepancies were small (i.e. –2.5%, –13.7% and –7%). Hence, it was decided to ignore them.

The reverse held true for responses from companies and trade union representatives. In the case of communication methods used for employees, there were lots of negative discrepancies indicating that the trade union representatives had claimed to use more of some methods than companies had indicated. The author believes that the differences could have been due to the fact that companies who took part in this study regarded their employees as individuals and not necessarily as trade union representatives who were more powerful and well-informed about employees' rights than individual employees were. Also, no distinction was made in the questionnaire between individual employees and trade union representatives. The author believes that it is very likely that many of the companies who responded to the questionnaires did not have union representatives. It is not possible to say precisely how many companies who responded did not have any union representatives, as some of the companies did not reveal their names. At the same time, it is not possible to know if companies considered their individual employees when responding to the questionnaire. In addition, the employees of some companies that took part in the survey were not represented in the survey.

In the case of information items disclosed to stakeholders, many negative discrepancies were found between companies' and investors' responses suggesting that investors claimed to have received more information than companies had claimed to disclose to them. Large negative discrepancies were observed for 'Marketing Information' items. In the author's view, there can be two reasons for this. Firstly, companies could have disclosed more information to their investors than they were prepared to admit. Alternatively, companies could have considered individual investors as well as institutional investors when responding to the questionnaires. It is possible that companies did not provide their individual investors with as much information as they provided their institutional investors with. According to Short and Keasey (1997), institutional investors are more powerful than individual investors are and they can play a significant role in monitoring managerial performance.

The non-financial information items, which were categorised under 'Information on Organisation', were found to have the highest negative discrepancies for the responses received from companies and investors indicating that investors claimed to receive more non-financial information than employees did. Information items with high negative discrepancies were 'Information on Personnel', 'Working Objective' and 'Supervision and Management'. All of these information items were found to be useful by investors earlier on in section 6.3.2. In the case of non-financial information, the author believes that negative discrepancies could be explained by the way companies took into consideration their individual investors as well as their institutional investors when responding to the questionnaire. It is possible that companies did not provide their individual investors with as much non-financial information items as they provide their institutional investors.

As far as other non-financial information items are concerned, there were some information items for which positive discrepancies were observed between the responses from companies and investors. The highest positive discrepancies were observed for 'Operating and Technical Information' and 'Social Welfare'. The responses from investors (shown in Table 6.6) revealed that neither of the two items were found useful by investors and only a small percentage number of investors claimed to be in receipt of them (i.e. 21.4% of investors used 'Operating and Technical information' and 0% of investors used 'Social Welfare' information). The author believes that as investors did not show interest in the two information items, the possibility of companies actually disclosing information on these two items is small. Nevertheless, companies claimed to have done so, as doing so would elevate their social image. This is in alignment with the second strategy introduced by Lindblom C. K.

(1994). Under Lindblom's second strategy, companies could have disclosed such information to change the perceptions of their employees without having to change their actual behaviours.

In the case of the disclosed information items, there was an average discrepancy of –13.3%[83] between the responses received from companies and investors in comparison to an average discrepancy of –2.9%[84] between companies' and employees' responses. The discrepancy between responses from companies and investors was considerably larger (i.e. –13.3%) than the discrepancy between responses from companies and employees (i.e. -2.9%). This showed that companies claimed to disclose more information to their employees than to their investors while in reality the reverse held true. In other words, companies had disclosed more information to their investors than they had revealed. Similar findings were observed for the two-way communication and consultation. The responses showed that the negative discrepancies between responses from companies and investors was (i.e. –7.9%) higher than the negative discrepancy between responses from companies and employees (i.e. –1.6%).

In the author's view, the reason for the above findings can be explained by the findings on the fifth research question suggesting that companies paid more attention to their investors than to their employees. This was despite employees being more demanding to acquire more information items than investors were (as shown in sections 6.2.2 and 6.3.2, respectively). The findings for the fifth supporting research question also explains the observation for joint consultation. The above finding can be also explained using the

[83] [(–226%)/17]=13.3%, where –226% is the total discrepancy between the responses from companies and investors and 17 is the number of information items disclosed.
[84] [(-49.9%)/17]=-2.9%, where –49.9% is the total discrepancy and 17 is the total number of information items disclosed.

first dimension of Ullmann's (1985) model. According to the first dimension, the powerfulness of a stakeholder group depends on how significant the resources they have control over are to companies. In this case, although employees were found to be more demanding than investors in obtaining information, companies disclosed more information to their investors as investors had control over financial resources and were regarded to be the most important stakeholder group.

A similar finding was observed for 'joint consultation'. In the case of 'joint consultation', even though 82.7% of employees (shown in Table 6.10) had 'joint consultation' with companies, they showed that on average they found joint consultation 'somewhat' useful. In comparison, only 42.9% of investors claimed to have joint consultation with companies but they found the joint consultation to be more useful than employees did (shown in Table 6.7). Regardless of a higher volume of joint consultation between companies and employees rather than between companies and investors, the observation of a higher degree of usefulness found by investors than by employees illustrated, once again, that companies could have paid more attention to their investors than to their employees and provided their investors with better quality of information and communication, in general.

According to Adams *et al* (1995), in the absence of any regulatory requirements the amount of discursive information is likely to rise without much attention being paid to the quality of information. The above finding is in alignment with Adams *et al*'s findings and indicates how easily companies could increase the quantity of information without paying much attention to its quality. This undoubtedly shows that companies used information disclosure at their own discretion to serve their own purposes. This behaviour of companies can be best explained by the second legitimacy strategy introduced by Lindblom's C. K. (1994). This is to say that companies appeared to disclose information to change the externals' perceptions without having to change their actual behaviours.

6.6 Conclusion

This chapter presented the responses to the questionnaires and provided evidence to answer the second key research question. The second key research question was concerned with the 'quality' of non-financial information and asked whether there is any dialogue between companies and their stakeholder groups. This chapter presented evidence to answer whether companies attach different importance to their different stakeholder groups (i.e. supporting research question 5), and whether UK companies met the information requirements of their stakeholder groups (i.e. supporting research question 6). The chapter examined the evidence on the two research questions 5 and 6 which were based on two aspects of 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR). The two aspects were 'stakeholder identification' and 'stakeholder dialogue', respectively.

The evidence on the fifth supporting research question, which focused on 'stakeholder identification' (i.e. the first aspect of SEAAR), suggested that companies attached different importance to their different stakeholders. The overall responses showed that investors were identified as the most important group with employees, customers, public and suppliers in the second, third, fourth and fifth places, respectively. Apart from a few companies that responded to use share ownership as the main criteria for classifying their stakeholder groups, the overall responses showed that most companies did not appear to have any procedures for doing so.

The sixth supporting research question focused on 'stakeholder dialogue' (i.e. the second aspect of SEAAR). As discussed in *Chapter 3*, the state of stakeholder dialogue could be assessed by examining three aspects: 'methods of communication', 'information items disclosed to each stakeholder group' and 'two-way communication and consultation'. Even if companies attached different importance to each stakeholder group, they were still expected to: (a) use relevant methods of communication, (b) disclose relevant information items, and (c) use relevant methods of two-way communication and consultation for each stakeholder group to ensure that they hold dialogue with that group. This meant that when companies disclosed non-financial information to meet the information requirements of their stakeholder groups, stakeholders were expected to find the information to be relevant and useful.

The evidence suggested that companies held dialogue with their stakeholders according to the way they attached importance to them. It was shown that companies provided their investors with more useful information relative to the information they provided their employees with. In the case of investors (i.e. the most important stakeholder groups), not only companies incorporated their investors' preferences when deciding on the communication methods they would use but provided them with more information. Based on the findings of this chapter, as the degree of importance attached to stakeholder groups fell (e.g. employees), so did the attention companies paid to their communication with that group. Hence, employees did not find the information items disclosed to them useful. This was despite companies holding more 'two-way communication and consultation' with their employees than with their investors.

The findings of this chapter could be interpreted as illustrating that companies held more dialogue with their employees than with their investors. The responses from the two stakeholder groups implied that employees were generally more demanding in acquiring information than investors were. Even though the responses received from companies can be interpreted as companies holding more dialogue with their employees than they did with their investors, the responses received from employees and investors suggested that according to them this was not the case. Companies had also claimed to hold more dialogue with their employees to disclose detailed information about their internal affairs.

Overall, the findings of this chapter provided limited evidence to be able to argue that UK companies paid much attention either to the identification of their stakeholder groups or to the dialogue with their stakeholder groups. In other words, the findings of this chapter cannot be used to suggest that UK companies paid attention to the quality of non-financial information by meeting the information requirements of their stakeholder groups. As it was argued in *Chapter 2*, the lack of evidence to suggest that companies paid attention to the quality of non-financial information they disclosed together with the evidence from the previous chapter on the association between non-financial information disclosure and some aspects of corporate characteristics suggest that companies could have disclosed non-financial information to legitimise their corporate behaviours.

CHAPTER 7 SUMMARY AND CONCLUSION

7.1 INTRODUCTION

In this concluding chapter, the aims and objectives of the study are reiterated. A summary of the theoretical and practical discussions presented in *Chapter 2* to explain the disclosure of non-financial information follows in section 7.3. The first part of the literature review, which was presented in *Chapter 2,* is summarized in section 7.3. A summary of the second part of the literature, which was carried out in *Chapter 3* and focused more on the review of the empirical findings of previous studies follows in section 7.4. In section 7.5, a brief summary of the methodological issues, discussed in *Chapter 4*, is presented. In section 7.6, a summary of the main findings together with concluding remarks is presented. Scope and limitations of the study are presented and discussed in section 7.7. In section 7.8, recommendations for further research and further comments are presented.

7.2 OVERALL AIM AND OBJECTIVES

The aim of this study is to investigate the possible reasons for the major UK companies disclosure of non-financial information in the absence of any recognition by the accounting profession and any requirements by the regulatory bodies. The study particularly focused on two key research questions. The first key research question concentrated on whether the major UK companies disclosed non-financial information to legitimise their behaviours to their stakeholders and the second key research question was based on whether the major UK companies disclosed information to meet the information requirements of their stakeholders.

In the absence of any recognition by the accounting profession and any requirements by the regulatory bodies, companies are likely to use non-financial information disclosure to legitimise their behaviours to their stakeholders. The author argued that if companies did not use non-financial information to legitimise their behaviours, companies were expected to disclose non-financial information regardless of their corporate characteristics (i.e. section 2.2.3 in *Chapter 2*).

The second research question was presented to seek out further evidence to expand the findings of the first key research question. This is to say whether companies made any attempts to provide their stakeholder groups with information that they required. This was investigated by seeking to find out whether companies identified their stakeholder groups and whether they held dialogue.

The two key research questions were expected to provide evidence that would clarify whether UK companies were in a transitional period to become more transparent. In a way, the evidence was expected to shed light on whether UK companies had become more inclusive of their stakeholders and were taking on board their stakeholders' views.

The motivation behind this study was based on the fact that in the absence of any recognition by the accounting profession and any requirements by the regulatory bodies, companies would use non-financial information for their own benefit. Companies are unlikely to disclose non-financial information to serve their stakeholders when stakeholders are not represented in companies' decision making processes (i.e. governance structures) and when there is no procedures to verify the disclosed information. One way of ensuring the quality of non-financial information is through social audit. Although the practice of social audit is not common among the major UK companies, it was decided here to focus on two of aspects, which could be applied to a large number of companies. These two aspects were 'stakeholder identification' and 'stakeholder dialogue'. It was argued that if companies pay any attention to the quality of non-financial information they disclose, they are also expected to identify their stakeholder groups and to hold dialogue with them. It is only then that there is evidence to suggest that there has been a transition towards transparency among the UK companies.

To explore each key research question, 6 supporting research questions were presented in *Chapter 3.* For the first key research question, supporting research questions 1 to 4 were posed and for the second key research question supporting research questions 5 and 6 were presented.

7.3 Theoretical and Practical Discussion Relevant to the Disclosure of Non-financial Information

The literature review of this research project was carried out in two parts. The first part concentrated on the broader accounting literature and reviewed theoretical and conceptual aspects. This part of the literature review was presented in *Chapter 2.* The second part of the literature review, which was presented in *Chapter 3*, focused on the narrower part of the literature and presented a survey of the empirical studies. While the first part of the literature highlighted the gaps in the theoretical and conceptual literature and resulted in posing the two key research questions of the study, the second part of the literature review led to the presentation of the supporting research questions.

In order to have a tenable theoretical explanation for the disclosure of non-financial information, *Chapter 2* illustrates a historical review of the theories that were used to explain the disclosure of information since the early days of the formation of modern accounting in the late 19th century. The literature review revealed how the literature evolved over the years to incorporate different internal and external aspects. It was revealed that conventional accounting focused on recognising the economic contracts between companies and its information users. This was followed by the surge of critical perspectives when academics argued that companies also needed to take account of social contracts as well as the economic contracts and to disclose non-financial information (mainly what they regarded as social information) to groups with whom they hold social contracts. This brought up the issue of accountability of companies to society-at-large. Proponents of accountability argued that in any democratic society, companies needed to discharge their responsibilities to society even in the absence of any regulations or legal requirements.

There were, however, difficulties in defining the terms of a social contract based on which disclosure of non-financial information could be explained. For instance, what information categories need to be disclosed, who determines the terms of accountability, to which groups are companies held accountable, and when is the accountability due? As these questions remained unanswered, it was argued that other theories would be used to explain the disclosure of non-financial information.

Further literature review revealed that legitimacy and stakeholder theories were the most relevant theories to explain the disclosure of non-financial information. While legitimacy theory argues that companies disclose non-financial information to adopt one of the four strategies introduced by Lindblom C. K. (1994), stakeholder theory recognises that there are different stakeholder groups.

In order to provide a comprehensive theoretical explanation as to why companies disclose non-financial information to their stakeholders in the absence of any regulatory or legal requirements, it was decided to use both stakeholder and legitimacy theories jointly and interchangeably. The two theories were believed to supplement each other. While the legitimacy theory explained the disclosure of non-financial information by companies to justify their behaviours to society-at-large, stakeholder theory identifies different corporate stakeholder groups. Based on these two theories, the first key research question was presented as:

> *"Do companies disclose non-financial information to* ***legitimise*** *their corporate behaviours to their stakeholder groups?"*

To expand the *first key research question*, further evidence was required to show whether companies met the information requirements of their stakeholders or whether they pay any attention to the quality of the non-financial information. The recent literature on the quality of the non-financial information was discussed. It was argued that if companies intended to meet the information requirements of their stakeholders, supporting evidence was required to suggest that companies had taken the appropriate steps to ensure the quality of non-financial information. Both legitimacy and stakeholder theories failed to explain how companies could meet the information requirements of their stakeholders. Hence, the literature review was extended to include a discussion of the literature on 'Social and Ethical Accounting and Auditing and Reporting' (SEAAR).

The literature review on SEAAR revealed that the proponents of a triple-bottom-line argument regard the transition towards corporate transparency as one of the main features of tomorrow's companies. It was then argued that if UK companies were undergoing such a transition, evidence needed to suggest that they were paying attention to the quality of non-financial information they were disclosing to their stakeholders. It was highlighted that if companies intend to meet the information requirements of their stakeholders, they had to (a) identify and (b) to hold dialogues with their stakeholder groups.

This led to the presentation of the second key research question, which was:

> *"Do companies disclose non-financial information to* ***meet the information requirements*** *of their stakeholder groups?"*

7.4 Corporate Legitimization and Stakeholders' Requirements: Classification of Non-Financial Information, Corporate Characteristics, and Quality of Non-Financial Information

The second part of the literature review was carried in *Chapter 3* where supporting research questions 1 to 6 were presented in order to explore the two key research questions that were raised in *Chapter 2*.

Chapter 3 comprised of three main parts. In the first part, the classification of non-financial information into two groups of governance and non-governance information was discussed. It was argued that having a transparent and a sound governance structure is necessary for those companies that claim to be socially responsible. The author argued that in the absence of any regulatory and statutory requirements, this is the only way that companies can provide the required assurances to their stakeholder groups. The first part embraced discussion of the classification of non-financial information into two groups of governance and non-governance information. In order to justify why each information category was considered, the literature relevant to each category was surveyed. For instance, in the case of governance information, information categories were mainly selected based on the recommendations of the Cadbury Committee (1992). The literature review in this part presented 10 non-governance and 13 governance information categories that would be used in this study to measure the level of non-financial information disclosure.

The second part of *Chapter 3* focused on the findings of previous relevant studies reviewed for the purpose of this study[85]. The literature on four corporate characteristics was reviewed to present supporting research questions 1 to 4. The four corporate characteristics were: industrial affiliation, size, growth and performance. It was argued that if companies disclosed non-financial information to meet the information requirements of their stakeholder groups, they would do so regardless of their corporate characteristics in which case it was unlikely to observe any associations between corporate characteristics and non-financial information disclosure. The findings of the previous studies were considered when stating the expectations on the findings of each supporting research question.

The third part of the chapter focused on exploring the literature relevant to the second key research question. The second key research question was concerned with the quality of non-financial information and asked whether companies paid any attention to the quality of non-financial information they reported. It was decided to address the issue of quality by focusing on two of the five aspects of the 'Social and Ethical Accounting, Auditing, and Reporting' (SEAAR). The two aspects were: 'stakeholder identification' and 'stakeholder dialogue' based on which the two supporting research questions 5 and 6 were presented. While the fifth supporting research question was concerned with

[85] It was found that some of the previous studies had measured the level of social and environmental information while others had referred to social and environmental activities.

whether companies identified their stakeholder groups, the sixth supporting research question focused on investigating whether there was any stakeholder dialogue between companies and their stakeholder groups.

The other three remaining aspects of SEAAR that were not selected were 'public disclosure', 'indicators benchmark', and 'continuous improvements'. Despite the fact that 'public disclosure' was to some extent measured in this study, it was decided not to consider this aspect, as the extent of information disclosure was not measured in this research project. As for the other remaining two aspects (i.e. 'indicators benchmark' and 'continuous improvements'), they were not considered as doing so was neither in the time limit nor in the scope of this study. For instance, these two aspects required extensive research to find out whether companies had any procedures to find out about their stakeholder values, interests and expectations and whether companies had any procedures to continuously incorporate the changes in their stakeholders values, interests and expectations.

The sixth supporting research question was explored by looking at three aspects of stakeholder dialogue. The three aspects were: 'methods of communication', 'information items disclosed to each stakeholder group', and 'two-way communication and consultation'.

7.5 METHODOLOGICAL ISSUES

Methodological issues of this thesis were discussed in *Chapter 4*. This chapter mainly discussed the methodology and methods that were adopted and applied in this study. *Chapter 4* proceeded by providing a brief summary of the methodological approaches commonly used in social sciences. It was argued that methodology adopted in any research project should be relevant to the overall aim and objectives of the research. It was argued that the methodology adopted in this research is positivist as the study seeks to draw conclusions based on empirical findings and observations. This undoubtedly meant that the methodology adopted in this research was an applied one. Furthermore, the methodology was reported to have adopted a deductive approach as the research questions were derived from the existing literature and based on gaps in it. Having discussed the appropriate methodology for this study, the remaining parts of *Chapter 4* discussed the relevant methods that would be used in this study.

Chapter 4 showed that the research methods used for the two key research questions were different. For the supporting research questions 1 to 4, it was decided to use content analysis to collect data on the level of non-financial information disclosure. This was so because the four research questions were concerned with the level of non-financial information. Among different content analysis techniques, it was decided to use indexing as the study would not measure the extent of disclosure for each information category and as indexing would provide the most reliable outcome for this research project. In the case of the second research question, postal questionnaires were selected from different survey methods to be the most appropriate data collection technique.

In order to carry out content analysis, it was decided to use the annual reports of the Top 100 UK companies as the main data source. It was also decided to collect data for 1985, 1990 and 1995. For the postal questionnaire, three groups were chosen. They were: companies, employees and investors. Employees and investors, which represented two stakeholder groups, were selected on the premise that they have different interests and, therefore, presented different perspectives. Ideally, it would have been more comprehensive to approach more stakeholder groups. However, due to time and resource limitations only two stakeholder groups were approached.

The Chapter presented evidence on the rising level of governance and non-governance information in 1985, 1990 and 1995. The evidence showed that the level of governance information was generally higher than that of non-governance information in the three years. This was followed by a discussion on different data analysis techniques that would be used for examining the research questions 1 to 4. To be able to measure the association between corporate characteristics and non-financial information disclosure, appropriate statistical techniques were selected. It was decided to use non-parametric tests as the assumptions for parametric tests did not hold. Kurskal Wallis's test was chosen to examine if companies with different characteristics had the same governance and non-governance scores. Also, Spearman Rank Correlation was used to measure association between governance/non-governance scores and corporate characteristics. In addition to these, cross-tabulation was used to present the spread of governance, non-governance and total scores across different size and industrial categories (e.g. to show if larger companies had scored higher).

Questionnaire design was also discussed in *Chapter 4*. The reasons why each question was asked and which aspects of stakeholder dialogue it was aiming to address were presented. This was followed by the analysis of the financial and non-financial characteristics of respondents and non-respondents. Non-financial characteristics were measured in terms of governance and non-governance information the companies had disclosed. It was found that respondents had higher non-governance scores and had performed better financially than non-respondents.

Chapters 5 and *6* reported on empirical investigation on the first and second research questions, respectively. *Chapter 5* presented the findings on supporting research questions 1 to 4 and provided analytical discussions for each research question. In *Chapter 6*, empirical investigation was carried out to present evidence on supporting research questions 5 and 6. In *Chapters 5* and *6*, the findings for the supporting research questions were used to answer key research questions 1 and 2, respectively. In the next section, the main findings of *Chapters 5* and *6* are presented and discussed.

7.6 THE MAIN FINDINGS AND CONCLUDING REMARKS

The overall finding of this study suggests that in the absence of any recognition by the accounting profession and of any requirements by the regulatory bodies, UK companies disclosed non-financial information to legitimise their behaviours to their stakeholder groups rather than meeting their stakeholders' information requirements.

The above findings were supported by evidence found on the two key research question. According to the findings of the first key research question, associations were observed between certain corporate characteristics and non-financial information disclosure. Evidence on the second key research question suggested that companies paid more attention to the information requirements of their investors relative to the information requirements of their employees.

Evidence was found to suggest that companies always disclosed more information on their governance structures than on their non-governance issues. Disclosure of more information on governance structures clearly suggested that UK companies paid more attention to their investors ensuring them of the soundness of their managerial structures.

The overall findings for the first key research question illustrated that companies use non-financial information disclosure for legitimacy purposes. More detailed findings related the first key research question are as follows:

(a) The findings suggested that companies in certain industries were associated with the disclosure of governance information in 1985 and 1995.

The findings implied that companies could have disclosed governance information to adopt either of Lindblom's C. K. (1994) four strategies to provide assurances on their managerial structures. The finding that governance score was associated to the industrial backgrounds of companies in 1995, after the introduction of the Cadbury Code of Best Practice in 1992, suggested that companies in certain industries were under more pressures to provide assurances on the soundness of their management. This finding supports the earlier presumption that UK companies regard their investors as their most important stakeholders and they use the disclosure of non-financial information to legitimise their behaviours to them.

(b) No association was observed between non-governance information and industrial affiliation in either of the three years. This observation, which was not in alignment with the overall perception given by the previous studies, was explained by the fact that this study did not measure the extent of non-governance information disclosed by companies. It was argued that companies in certain industries are likely to concentrate on certain information categories and report on that category extensively. This, however, could not be reflected in this study.

(c) Empirical evidence suggested that with the rising level of non-financial information, non-governance scores were found to be associated with corporate size in 1985 and 1995. This finding suggested that larger companies disclosed more non-governance information than smaller companies. This finding was also in alignment with the findings of the earlier studies illustrating that larger companies are more in the public eye, and hence are more likely to disclose information. It was argued that larger companies disclose more non-governance information, either to justify their behaviours to their stakeholders or to indicate that they have the same norms and values as those of the society. In doing so, companies could have adopted the first, second or the fourth strategy introduced by Lindblom.

(d) Association was observed between corporate growth rate for the period 1990-95 and non-governance information disclosed in 1995. No association was found between corporate growth rate and governance information disclosure.

(e) As the level of non-financial information increased in the period from 1985 to 1995, the number of performance aspects that were associated with non-governance scores also increased as compared to the number of associations with governance information. The evidence also showed that in the second half of the 1980s, when the level of non-financial information disclosure was still low and when no regulatory code of best practice had been introduced on corporate governance, governance information disclosure was associated with certain performance aspects. The evidence suggests that companies were using governance information to assure their investors that managers were acting in their best interests.

The introduction of Cadbury code of best practice in 1992 was only a starting point for the publication of regulations on governance structures. After the introduction of the Cadbury code of best practice in 1992, governance information disclosure was observed to be associated with less aspects of corporate performance. Instead, the increasing number of associations between different aspects of performance and non-governance information clearly suggested that in the absence of any regulations, companies with certain performance characteristics (e.g. high profitability, high productivity and high working capital) disclosed more non-governance information.

Based on the empirical findings, it was argued that companies could have adopted either of Lindblom's four strategies when disclosing non-governance information.

The overall finding for the first key research question can be interpreted as UK companies disclosing non-financial information to legitimise their corporate behaviours. The detailed findings for the second key research question are:

(f) The evidence suggested that even though different companies attached different importance to their stakeholder groups, UK companies did not appear to have any procedures to classify their stakeholder groups. Companies were found to classify investors as their most important stakeholder groups with employees in the second place.

(g) Overall, the findings of this chapter provided limited evidence to be able to argue that UK companies paid much attention to the identification of their stakeholder groups and to the dialogue with their stakeholder groups. In the absence of such evidence it was not possible to argue that UK companies pay attention to the quality of non-financial information they disclose.

In summary, the overall findings for the second key research question does not point to the direction that UK companies have moved or are moving towards more corporate transparency. It was suggested that the overall finding for the second research question suggests that the adoption of Lindblom's second strategy by UK companies where companies use information disclosure and stakeholder dialogue to change the perception of others without having to change their actual behaviours.

7.7 SCOPE AND LIMITATIONS

Inevitably, investigation in research of this nature has shortcomings. Shortcomings are primarily due to the information content of the area under investigation. The main shortcomings of this study are:

(a) Companies publish a large volume of information in different mediums of communication other than their corporate annual reports. Although annual reports are the most important medium, the information published in journals, magazines and other mediums could represent corporate behaviour in times of, for instance, crisis. Annual reports are published once a year and, sometimes, it is too late for companies to respond to events in their annual reports.

(b) In this study, the non-financial information was divided into two groups of governance and non-governance information. The governance information categories were mostly recommended by the Cadbury codes of best practice and were investor oriented and would not therefore reflect the interests of other stakeholder groups. Despite this shortcoming, the index would still represent the changes in the transparency of the governance structures of UK companies in 1985, 1990 and 1995.

(c) Companies in the Top 100 were from different industrial backgrounds. This meant that some companies would concentrate more on certain information categories than on some others. To overcome this problem, all the information categories included in the index were equally weighed and no sub-category was included. However, there was one remaining problem. Some companies could find some information categories totally irrelevant and, therefore, would not disclose any information on them. The indexing method used in this study does not identify this and treats the absence of information item as non-disclosure.

(d) To assess stakeholder dialogue, the study focused only on two stakeholder groups (i.e. investors and employees). Other stakeholder groups, for instance, consumer groups, suppliers and public representatives, were not approached. As this study is limited to only two of the major stakeholder groups, the results cannot be regarded as comprehensive as it could have been if a few more stakeholder groups had been approached. This would have been beyond the scope of the study and would have been too timely and required expertise from other fields.

(e) From the two groups of individual and institutional investors, it was decided to consider institutional investors, only. Individual investors were not included, as it was difficult to track them down. Also, they could not have provided detailed information in the same way as investment managers, representing institutional investors would.

As for the employees, it would have been ideal to approach either employee representatives, who were elected by the employees themselves, or individual employees to participate in the questionnaire survey. As the names and addresses of employee representatives were not publicly available, companies were approached to provide the details. Individual employees were reluctant to participate in the questionnaire survey. At the same time, companies were reluctant to provide such information. Thus, the only option left was to approach the trade unions.

(f) There were a number of limitations associated with the trade unions Firstly, not all the companies selected for this study had trade union representatives. Secondly, the union representatives have the back up of their union to communicate with companies whereas individual employees who are not supported by unions are in a much more vulnerable position and could be treated differently by their companies. Hence, the findings of this study could suggest a higher level of dialogue. Thirdly, for those companies that had a union representative, there were various groups of workers and employees. As the trade union took the responsibility of sending out the questionnaires to their representatives in each company (they were not allowed to reveal the names and addresses of their representatives due to the Data Protection Act), the selection depended on them. As a result, some groups could have been missed out and therefore not represented in the survey.

Ideally, a pilot survey should have been carried out before sending out the questionnaire to the selected groups. However, the fact that the union representatives could be approached only once did not allow a pilot survey to be carried out for employees. A pilot survey, having access to some of the selected union representative would have enabled the author to ensure that all of the questions selected were understood by the individuals who completed the questionnaire. As a pilot survey could have not been sent out to the trade union representatives, it was decided to treat the questionnaires to all the three groups in a similar manner. Hence, a pilot survey was not sent out to any of the three groups.

In order to avoid any possible ambiguities in the questionnaires, the questions were kept short and simple so that they could be easily understood. Questionnaires were drafted a number of times before their final versions. The questionnaires were discussed with and commented by fellow PhD students, a professional researcher specialised in industrial relations and another researcher, who had experience in working with the trade unions, at Middlesex University Business School. In addition, the questionnaire for employees was reviewed by the head of research in one of the unions who participated in the survey before sending them out to their representatives.

(g) Another limitation of this study is the way it focuses on only two of the five aspects of SEAAR as the other three were out with the time limit and scope of this study. This study used the five characteristics of SEAAR (as discussed in the literature) to investigate whether companies paid any attention to the quality of non-financial information they disclose. The fact that the study focused on only two aspects makes the overall conclusion less comprehensive. As was discussed in section 7.4, there were three other aspects that were not considered in this study, as doing so would have required technical expertise and extensive research in other academic fields.

7.8 Recommendations for Future Research and Further Remarks

While this study found evidence suggesting that companies disclose non-financial information to legitimise their behaviours, the findings of this study can benefit from further research. Further research can focus on the following issues:

(a) This study investigated whether companies paid any attention to the quality of non-financial information disclosure by focusing on only two of the five aspects of SEAAR. Further research can be carried out to assess the other three aspects as well as expanding the findings for stakeholder dialogue. The findings for stakeholder dialogue can be expanded by approaching stakeholder groups other than investors and employees. For instance, consumer groups can be approached in which case consideration need to be made for their issues with the main focus on their information requirements.

In this study, questionnaires were sent out to a small number of companies and institutional investors due to resource limitations and time constraints. The results could present a more comprehensive picture by selecting a larger number of companies and institutional investors.

(b) Another aspect of SEAAR which was not considered in this study was 'public disclosure'. In this study, the simplest form of content analysis, commonly known as indexing, was used to measure the level of non-financial information disclosure and not the extent of disclosure. To be able to investigate this aspect of SEAAR, the index used in this study can be expanded by including more governance and non-governance information categories. In addition, for each information category sub-categories can be included. In this way, the study would measure the extent of information disclosure.

(c) Another point that can be considered for future research is to take into account the information requirements of stakeholder groups when deciding on which information categories to consider for content analysis. This can be done by approaching different stakeholder groups and by finding out their information interests and requirements. Although this would be a long process, it would allow us to measure whether companies have met the information requirements of their stakeholders. The difference between this approach and conventional content analysis techniques is that more attention would be paid to stakeholder groups and to their information requirements rather than focusing on what companies decided to disclose to their stakeholders.

(d) Investigation needs to be carried out on the other two aspects of SEAAR. Studies can be conducted to find out if companies use any 'indicators and benchmarks' that they can compare their non-financial information with. In addition, investigation needs to be carried out to find evidence on whether companies continuously review and update their benchmarks and indicators with the changing interests and expectations of their stakeholder groups.

(e) In *Chapter 2*, the literature review revealed that little attention has been paid to the significant role that corporate governance can play in making companies more accountable to their different stakeholder groups. Under the current UK system, stakeholder groups are not represented in the governance structures of companies. Hence, they do not play any roles in decision making process. Further research needs to be conducted on how willing different stakeholder groups are to have an active role in companies' governance structures. Conversely, research can be carried out to find out how companies would react to the idea of having stakeholder representatives in their governance structures.

The overall findings of this study suggested that UK companies use non-financial information disclosure to legitimize their corporate behaviours to their stakeholders in the absence of any regulatory requirements or any recognition from the professional bodies. The evidence even suggested that companies made less effort to meet the information requirements of their employees. Considering the wide variety of stakeholders' interests and values, it could be a difficult task, if not impossible, to introduce regulatory requirements that would serve the interests of all stakeholder groups covering a wide range of non-financial issues. One problem with regulations on different non-financial issues is that they need to be up-dated regularly to incorporate changes in the expectations and values of stakeholders. As regulations are highly unlikely to serve the changing interests of stakeholders, the presence and involvement of stakeholder representatives would ensure that companies act in interests of their stakeholders. In this way, the level of mutual understanding between companies and their different stakeholders is increased.

REFERENCES

Abbott W. F. and R. J. Monsen (1979), "On the measurement of corporate social responsibility: self-reported disclosures as a method of measuring corporate social involvement", *Academy of Management Journal*, Vol 22, No 3, pp 501-515.

Adams C. A., J. Carruthers and S. Hamil (1991), *Changing Corporate Values*, London: Kogan Page.

Adams C. A., A. Coutts and G. Harte (1995), " Corporate equal opportunities (non-) disclosure", *British Accounting Review*, Vol 27, No 2, pp 87-108.

Adams C. and G. Harte (1999), *Towards corporate Accountability For Equal Opportunities Performance*, ACCA Research Report, London, CAET.

Adams C. A., W. Y. Hill and C. B. Roberts (1995), *Environmental, Employee and Ethical Reporting in Europe (London: ACCA)*

Adams C. A., W. Y. Hill and C. B. Roberts (1998), "Corporate social reporting practices in western European: legitimate corporate behaviour?", *British Accounting Review*, Vol 30, No 1, March, pp 1-21.

Aikin, O. (1997), "Accidents will happen, but who's to blame?", *People Management*, Vol. 3, no. 6, p42-46.

Alexander J. J. and R. A. Bucholz (1978), "Corporate Social Responsibility and Stock Market Performance", *Academy of Management Journal*, Vol 21, No 3, pp 479-86.

Arnott M M, C C Minton and M Wilders (1981), *Employee Communication in the 1980s:* a survey covering 145 organizations conducted for the Institute of Personnel Management 1980 National Conference. London, Charles Barker Lyons, 1981, cited in Perkins (1986)

ASSC (1975), *The Corporate Report,* London: Accounting Standards Steering Committee.

Aupperle K. E., A. B. Carroll and J. D. Hatfield (1985), "An Empirical Examination of The Relationship Between Corporate Social Responsibility and Profitability", *Academy of management Journal*, Vol 28, No 2, pp 446-463.

Baker H. K. and J. A. Haslem (1973); "Information Needs of Individual Investors", Journal of Accountancy, November.

Ball A., D. L. Owen and R. Gray (2000), "External Transparency or Internal Captures? The role of third-party statements on adding values to corporate environmental reports", *Business Strategy and the Environment*, Vol 9, p 1-23.

Barnard C. I. (1938), *The Functions of the Executive.* Cambridge, Mass. : Harvard University Press.

Barret M. E. (1976), "Disclosure and Comprehensiveness in an International Setting", *Journal of Accounting Review*, Vol 14, Spring, pp 10-26

Barton S., N. Hill and S. Sundaram (1989), "Am empirical test of Stakeholder Predictions of Capital Structure", Financial Management, Spring, pp 36-44

Beardsworth A. (1980), Analysing Press Content: Some Technical and Methodological Issues, in Christian H. (eds), "The Sociology of Journalism and the Press", *Sociological Review Monograph*, Vol 29, pp371-395.

Belkaoui A. (1976), "The impact of the disclosure of the environmental effects of organizational behaviour on the market, *Financial Management*, pp26-31.

Belkaoui A. and P. G. Karpik (1989), "Determinants of the Corporate Decision to Disclose social Information", *Accounting, Auditing and Accountability Journal*, Vol 2, No 1, pp 36-51.

Belkaoui A. (1992), *Accounting Theory*, Third Edition, Academic Press.

Bell H. (1987), *Doing your research project: A guide to first-time researchers in education and social science*, OUP: Milton Keynes.

Benjamin J. J. and K. G. Stanga (1977), "Difference in Disclosure Needs of Major Users of Financial Statements", *Accounting and Business Research*, Summer, 187-192.

Berle A. A. and G. C. Mean (1932), *The Modern Corporation and Private Property*, New York, Macmillan.

Bland M. and P. Jackson (1990), *Effective Employee Communications*, Kogan Page.

Bowman E. H. and M. Haire (1975), "A strategic posture toward corporate social responsibility", *California Management Review*, Vol 18, No 2, pp 49-58.

Bowman E. H. and M. Haire (1976), "Social Impact Disclosure And Corporate Annual Reports", *Accounting, Organizations, and Society*, Vol 1, No 1, pp 11-21.

Bradgon J. H. and M. Marlin (1972), "Is Pollution Profitable?", *Risk Management*, April, pp 9-18.

Bradley K., S. Estrin and S. Taylor (1990), "Employee Ownership and Company Performance", *Industrial Relations*, Vol 29, No 3, pp 385-402.

Brown N. and C. Deegan (1998), "The public disclosure of environmental performance information – a dual test of media agenda setting theory and legitimacy theory", *Accounting and Business Research*, Vol. 29, No. 1, Winter Issue, pp 21-41.

Bryer R. A. (1993), "The Late Nineteenth-Century Revolution in Financial Reporting: Accounting For the Rise of Investor or Managerial Capitalism?", *Accounting, Organization and Society*, Vol 18, No 7/8, pp649-690.

Buckland R. and M. Doble (1995), "Corporate Governance in the early 1980s: an examination of board structures and directors' experience and qualifications in USM companies coming to market", *Working Paper*, University of Aberdeen.

Budd R. W., R. K. Thorp and L. Donohew (1967), *Content Analysis of Communication*, Macmillan: New York.

Bulmer M. (1982), *The Use of Social Research: Social investigation in public policy making*, George Allen and Unwin: London.

Buzby S. (1974), "Company size, Listed versus Unlisted Stocks, and The Extent of Financial Disclosure", *Journal of Accounting Research*, Vol 13, pp 16-37.

Burchell G., C. Gordon and P. Miller (1991), *The Foucault effect: Studies in governmentality*, London: Harvester Wheatsheaf.

Burke R. C. (1980), "The Disclosure of social accounting information, *Cost and Management*, pp 221-4.

Cadbury Committee (1992), *Committee on the Financial Aspects of Corporate Governance: Code of Best Practice*, London: Gee Publishing.

Charkham J. P. (1990), Are shares just commodities? In *Creative Tension?*, London: National Association of Pension Funds, pp 34-42.

Chakravathy B. (1986), "Measuring Strategic Performance", *Strategic Management Journal*, Vol 7, pp 437-458.

Chandler R. A. (1977), *The Visible Hand: The Managerial Revolution in American Business* Cambridge, MA: Harvard University Press, cited in Bryer (1993).

Chen R. S. (1975), "Social and Financial Stewardship", *The Accounting Review*, July 1975, pp 533-43.

Chenhall R. H. and R. Juchau (1977), "Investor Information Needs - An Australian Study", Accounting and Business Research, Spring.

Chugh L., M. Haneman, and S. Mahaptra (1978), "Impact of Pollution Control Regulations On The Market Risk of Securities in The U.S.", *Journal of Economic Studies*, May, p 67.

Coase R. H. (1937), "R. H. Coase's Lectures", *Journal of Law*, Economica, Vol 4.

Cochran P. L and R. A. Wood (1984),. "Corporate Social Responsibility and Financial Performance", *Academy of Management Journal*, Vol 27, No 1, 1984, pp 42-56.

Combined Code (1998), Committee on Corporate Governance: The Combined Code – London: Gee Publishing.

Conyon M. J. and D. Leech (1994), "Top Pay Company Performance and Corporate Governance", *Oxford Bulletin of Economics and Statistics*, Vol 56, No 3, pp 229-247.

Conyon M. and C. A. Mallin (1997), " A review of Compliance with Cadbury", *Journal of General Management*, Vol. 2, No. 3, Spring 1997.

Cornell B. and A. Shapiro (1987), "Corporate Stakeholders and Corporate Finance", *Financial Management*, Vol 16, pp 5-14.

Consultation and Communication – The 1990 Survey, acas, occasional paper 49, 1996.

Corporate Governance - history, practice and nature, The Chartered Institute of Management Accountants, 1999.

Cooke T. E. (1989), "Disclosure in the Corporate Annual Reports of Swedish Companies", *Accounting and Business Research*, Vol 74, pp113-24.

Cooke T. E. (1991), "An assessment of Voluntary Disclosure in the Annual Reports of Japanese Corporations", *International Journal of Accounting*, Vol 26, pp 174-189.

Cooke T. E. (1992), "The Impact of Size, Stock Market Listing and Industry Type on Disclosure in the Annual Reports of Japanese Listed Corporations", *Accounting and Business Research*, Vol 22, pp 229-37.

Cooke T. E. (1993), "Disclosure in Japanese corporate Annual reports", Journal of Business Finance and Accounting, Vol 20, No 4, June, pp 251-535.

Cooper D. J. and M. J. Sherer (1984), "The Value of Corporate Accounting Reports: Arguments for a political Economy of Accounting", *Accounting and Organisation and Society*, Vol. 9, No ¾, pp 207-232

Cooper D. R. and C. W. Emory (1995), *Business Research Methods*, Irwin: Chicago, Fifth edition.

Corporate Governance: Developing A Charter For Success (1999), The Institute of Chartered Accountants In England and Wales.

Cowen S. S., L. B. Ferreri and L. D. Parker (1987), "The Impact of Corporate Characteristics on Social Responsibility Disclosure: A Typology And Frequency-Based Analysis", *Accounting, Organization, and Society*, Vol 12, No 2, pp 111-122.

Cowling A. and P. James (1994), *The Essence of Personnel management and Industrial Relations*, Prentice Hall 1994.

Courtis J. K. (1978), "Modeling A Financial Ratios Categorical Framework", Journal of Business Finance and Accounting, Vol 5, No 4, pp 371-386

Creswell J. (1994), *Research Design: Qualitative and Quantitative Approaches*, London: Sage Publications.

Cyert R. M. and J. G. March (1963), *A Behavioural Theory of the Firm*, Prentice Hall.

Datastream, All Datastream services, programs and data belong to "Datastream International Limited", 1994. The data and information contained in the Datstream Services have complied by the Datastream Internal Limited in good faith from sources believed to be reliable, but no presentation or warranty, express or implied is made as to their accuracy, completeness or correctness.

Davey H. B. (1985), "Corporate Social Responsibility disclosure in New Zealand: an empirical investigation, *Occasional paper no. 52*, Department of Accounting and Finance, Massey University, cited in Mathews (1993).

De Vaus D. A. (1996), Surveys in Social Research, UCL Press: London, Fourth Edition.

Deegan C. and B. Gordon (1996), "A study of environmental disclosure practices of Australian Corporations", *Accounting and Business Research*, Vol. 26, No. 3, pp 187-199.

Deegan C. and M. Rankin (1996), "Do Australian companies objectively report environmental news? An analysis of environmental disclosures by firms successfully prosecuted by the Environmental Protection Authority", *Accounting, Auditing and Accountability Journal*, Vol 9, No 2, pp 50-67.

Deegan C. and M. Rankin, and P. Voght (2000), "Firm's disclosure reactions to major social incidents: Australian evidence", *Accounting Forum*, Vol 24, No 1, pp 101-130.

Dierkes M. and A. B. Antal (1985), "The Usefulness and Use of Social reporting Information", *Accounting, Organization and Society*, Vol 10, No 1, 1985, pp 29-34.

Dierkes M. AND R. Coppock (1978), "Europe tries the Corporate Social Report", *Business and Society Review*, Spring, pp 21-24

Donaldson T. and L. E. Preston (1995), "The Stakeholder Theory of The Corporation: Concepts, Evidence, and Implications", *Academy of Management Review*, Vol 20, No 1, 1995, pp 65-91.

Dowling J. and J. Pfeffer (1975); "Organisational Legitimacy: social values and organisational behaviour", *Pacific Sociological Review*, Vol. 18, No. 1, pp 122-36.

Drucker P. (1946), *Concept of the Corporation*, New York: John Day.

Dunne J. P. and A. Hughes (1994), "Age, Size, Growth and Survival: UK Companies in The 1980s", The Journal of Industrial Economics, Volume XLII, June, pp 115-141

Durkheim E. (1964), *The Rules of Sociological Method*, Free Press: Glencoe.

Easternby-Smith M., R. Thorpe and A. Lowe (1991), *Management Research An Introduction*, London: Sage.

Elkington J. (1999), *Cannibals With Forks – The Triple Bottom Line of 21st Century Business*, Capstone.

Employee Communication and Consultation, Advisory Booklet, acas - 1996.

Ernst and Ernst (1978), *Social Responsibility Disclosure 1978 Survey*. USA: Ernst and Ernst, Cleveland, Ohio, cited in Deegan, Rankin and Vought (2000).

Farnham D. (1993), *Employee Relations*, London: Institute of Personnel Management.

Ferber R., P. Sheatsley, A. Turner and J. Wakesberg (1980), *What is a Survey?*, American Statistical Assoc.: Washington.

Folger H. R. and F. Nutt (1975), "A Note on Social Responsibility and Stock Valuation", *Academy of Management Journal*, Vol 18, No 1, pp 155-160.7

Freedman M. and A. J. Stagliano (1984), "The impact of social information: investor reaction to public disclosure", in AAA Mid-Atlantic Regional Meeting, Baltimore, Proceedings.

Freedman M. and B. Jaggi (1988), "An analysis of the association between pollution disclosure and economic performance", Accounting, Auditing and Accountability Journal, Vol 1, No 2, pp 43-58.

Freeman R. E. (1984), "Strategic Management: A Stakeholder Approach", 1984, *Boston: Pitman.*

Freeman R. E. and W. F. Evans (1990), "Corporate Governance: A stakeholder Interpretation", *Journal of Behavioral Economics*, Vol 19, pp337-359.

Gjesdal F. (1981), "Accounting for Stewardship", Journal of Accounting Research, Vol 19, No 1, Spring, pp 208-231..

Gill J. and P. Johnson (1991), *Research Methods for Managers*, London: Paul Chapman Publishing.

Gladwin T. N. (1993), "Envisioning the sustainable corporation" in *Managing for Environmental Excellence*, Smith, E. T. (ed.), Washington, DC: Island Press: 1993, cited in Gray, Adams, and Owen (1996)

Gladwin T. N. (1997), "Sustainable Development: is it industry's business?", *Business and the Environmental*, February.

Gonella C., A. Pilling and S. Zadek (1998), *Making Values Counts: Contemporary Experience in Social and Ethical Accoutning, Auditing and Reporting*, ACCA Research Report 57.

Gordon R. A. (1945), *Business Leadership in the Large Corporation.* Washington DC: Brookings Institution.

Graves S. B. and S. A. Waddock (1994), "Institutional Owners and Corporate Social Performance", *Academy of management Journal*, August, Vol 37, No 4, p1034

Gray R. (1992), "Accounting and Environmentalism: An Exploration of The Challenge of Gently Accounting For Accountability, Transparency and Sustainability", *Accounting, Organization and Society*, Vol 17, No 5, pp 399-425.

Gray R. (1997), "The Practice of silent Accounting", in Zadek S., Pruzan P. And R. Evans (1997).

Gray R. (2000), "Social and Environmental Responsibility, Sustainability and Accountability: Can the Corporate Sector Deliver?", September, CSEAR, Glasgow University, cited in http://www.gla.ac.uk/departments/accounting/csear.

Gray R, C. Dey, D. Owen, R. Evans and S. Zadek (1997), "Struggling With the Proxies of Social Accounting: Stakeholders, Accountability, Audits, and Procedures", *Accounting, Auditing, Accountability Journal*, Vol 10, No 3, pp 325-364.

Gray R., M. Javad, D. M. Power and D. Sinclair (1999), "Social and Environmental Disclosure and Corporate Characteristics: A research note and extension", Discussion Paper, University of Dundee, June.

Gray R, D. Owen and C. Adams (1996), *Accounting and Accountability - changes and Challenges in corporate social and environmental reporting*, Prentice Hall.

Gray R., D. Owen and K. Maunders (1987), *Corporate Social Reporting: Accounting and accountability*, Hemel Hempstead: Prentice Hall, 1987

Gray R., D. Owen and K. Maunders (1988), "Corporate Social Reporting: Emerging Trends in Accountability and The Social Contract", *Accounting, Auditing and Accountability*, pp 6-20.

Gray R., D. Owen and K. Maunders (1991), "Accountability, Corporate Social Reporting, and the External Social Audits", Advances in Public Interest Accounting, Vol. 4, pp1-21.

Gray R., R. Kouhy and S. Lavers (1995a), "Corporate social and environmental reporting: a review of the literature and a longitudinal study of UK disclosure", *Accounting, Auditing and Accountability*, June, Vol 8, No. 2, pp 47-77

Gray R., R. Kouhy and S. Lavers (1995b), "Constructing a research database of social and environmental reporting by UK companies: a methodological note", *Accounting, Auditing and Accountability*, June, Vol 8, No. 2, pp 78-101

Gray S. T. (1995), "The Accountable Organization", *Association Management*, Vol 47, No 9, September, pp264.

Greenbury Report. (1995), Directors' Remuneration of directors: Report of a Study Group Chaired by Sir Richard Greenbury – London: Gee Publishing.

Groves R., M. J. Peel and M. Pendlebury (1995), "Employee Share Ownership and the Determinants of Financial Awareness", *Journal of Applied Accounting Research*, Vol 2, Issue II, pp 109-133.

Gul F. A. K., Andrew B. H. and Teoh H. J.(1984), "A content analytical study of corporate social responsibility accounting disclosures in a sample of Australian companies (1983), *Working Paper*, University of Wollongong, cited in Mathews (1993).

Guthrie J. and L. D. Parker (1989), "Corporate Social Reporting: A Rebutattal of Legitimacy Theory", *Accounting and Business Research*, Vol 19, No 76, pp 343-352.

Guthrie J. and L. D. Parker (1990), "Corporate Social Disclosure Practice: A Comparative International Analysis", *Advances in Public Interest Accounting*, Vol 3, pp159-175.

Hackston D. and M. Milne (1996), Some determinants of social and environmental disclosure in New Zealand", *Accounting, Auditing and Accountability Journal*, Vol 9, No 1, pp77-108.

Hambrick D. C. and S. Finkelstein (1995), "The Effect of Ownership Structure on Conditions At the Top: The Case of CEO pay Raises", *Strategic Management* Journal, Vol 16, No 3, pp 1775-193

Hamel J. (1992), The case study, *Current Sociology*, Vol 40.

Hammond S. A. and J. W. Slocum (1996), "The Impact of Prior Firm Financial Performance on Subsequent Corporate Reputation", *Journal of Business Ethics*, Vol 15, pp 159-165.

Han S. L. (1997), "A conceptual framework of the impact of technology on customer-supplier relationships", *Journal of Business and Industrial Marketing*, Winter, Vol 12, No 1, pp 11-22.

Hantrais L. (1995), *Social Policy in the European Union*, MacMillan Press Ltd.

Harrison J.S. and R. E. Freeman (1999), "Stakeholders, Social Responsibility, Empirical Evidence and Theoretical Perspectives", *Academy of Management Journal*, Vol 42, No. 5, pp 479-485.

Hampel Report (1998), *Committee on Corporate Governance: Final Report*, London: Gee Publishing.

Harte G. and D. Owen (1991), "Environmental Disclosure in the Annual reports of British Companies: A Research Note", *Accounting, Auditing and Accountability Journal*, Vol. 4, No. 3, pp 51-61.

Health and Safety Executive (2000), Injuries and Ill Health Caused By Handling The Food and Drink Industry (2000), Catering Information Sheet No 7 (Revised), http://www.hse.gov.uk/pubs/foodindx.htm)

Hines R. D. (1988), "Financial Accounting: In Communication Reality, We Construct Reality", *Acounting, Organization and Society,* Vol 13, No 3, pp 251-261.

Hirst P. (1997), "From the Economic to the Political", in *Stakeholder Capitalism* by Kelly G., D. Kelly, and A. Gamble (Macmillan Press Ltd - 1997)

Holsti (1969), *Content Analysis for the Social Sciences and Humanities*, Addison-Wesley: Reading.

Honger R. H. (1982), "Corporate social reporting: eight decades of development at US Steel", *Research in Corporate Performance and Policy,* Vol 4, pp 243-50.

Howard K. and J. A. Sharpe (1983), *The Management of a Student Research Project*, Gower: Aldershot.

Huddart S. (1993), "The Effect of a Large Shareholder on Corporate Value", Management Science, November, Vol 39, no 11, p1407-15.

Hussey J. and R. Hussey (1996), *Business research – A Practical Guide for Undergraduate and Postgraduate Students*, Macmillan Business.

Hutton W. (1997), "An Overview of Stakeholding", in *Stakeholder Capitalism* by G. Kelly, D. Kelly and A. Gamble, 1997 (MacMillan Press Ltd)

Ingram R. W. (1978), "An investigation of the Information Content of (certain) Social Responsibility Disclosures", *Journal of Accounting Research,* Vol 16, No 2, pp 270-85.

Investors in People (1998), (http://www.iipuk.co.uk/Library/PressRelease/presre74.htm)

Ijiri Y. (1983), "On the Accountability-Based Conceptual Framework of Accounting", *Journal of Accounting and Public Policy,* Vol 2, (1983), pp 75-81.

Jackson S. S. and J. P. Reburn (1999), "Accounting for Merger related Costs", Bank Accounting and Finance, Summer, Vol 12, No 4.

Jankowicz A. D. (1995), Business Research Projects, Thomson Business Press: London, Second Edition.

Jensen M. C. and W. H. Meckling (1976), "Theory of the Firm: Managerial Behaviour, agency Costs and Ownership Structure", *Journal of Financial Economy,* pp 305-60.

Johnson R. J. (1983), *Philosophy and Human Geography: An introduction to contemporary approaches*, Edward Arnold: London.

Jones T. M. (1995), "Instrumental stakeholder Theory: A Synthesis of Ethics and Economics", Academy of Management review, Vol 20, No 2, pg 404-437.

Keasey K. and M. Wright (1993), "Issues in Corporate Accountability and Governance", *Accounting and Business Research,* Vol 23, No 91A, pp 291-303.

Kelly G. J. (1979), "Measurement of Selected Social Responsibility Disclosure Items in Australian Annual Reports and Their Relations to Temporal Changes, Corporate Size and Industry", Dissertation, University of New England, cited in Mathews M. R. (1993).

Kerlinger F. N. (1986), Foundations of Behavioural research, 3rd edition, New York: Holt, Rinehart & Winston, cited Hussey and Hussey (1997).

Krippendorff K. (1980), *Content Analysis: An Introduction to Its Methodology*, Beevrly Hills, CA: Sage.

La Bar G. (1989), "The 1990s: what challenges await safety and health professionals? Changes in the work force, workplace and technology will require the occupational health and safety professionals of the next decade to maintain flexible, responsive programs", *Occupational Hazard*, February 1989, Vol 15, No 2.

Lazonick W. (1993), "Industry clusters versus global webs: organization capabilities in the American Economy", *Industrial and Corporate Change*, Vol 2, pp 1-24.

Laughlin R. C. and A. G. Puxty (1981), "The decision-usefulness criterion: wrong cart, wrong horse", *British Accounting Review*, Vol 13, No 1, pp 43-87.

Laurent C. R. (1979), "Improving The Efficiency and Effectiveness of Financial Ratio Analysis", *Journal of Business Finance & Accounting*, Vol 6, No 3, pp 401-412

Lehman C. R. (1995), *Accounting's Changing Role in Social Conflict*, Paul Chapman Publishing London - 1995

L' Etang J. (1994), "Public Relations and Corporate Social Responsibility: Some Issues Arising", *Journal of Business Ethics*, Vol 13, pp 111-123.

Lindblom C. K. (1994), "The Concept of Organizational Legitimacy and its Implications for Corporate Social Responsibility Disclosure", paper presented at the Critical Perspectives on Accounting Conference, New York.

Lindblom C. E. (1984), "The accountability of the private enterprise: private enterprise: private - no. Enterprise - yes" in Tinker A. M. (ed.), *Social accounting for Corporations*, Marcus Weiner, New York.

Littleton A. C. and V. K. Zimmerman (1962), *Accounting Theory, Continutiy and Change*. Englewood Cliffs, NJ: Prentice Hall.

Longstreth B. and D. Rosenbloom (1973), *Corporate Social Responsibility and Institutional Investors*, New York: Praeger.

Low A. E. and A. M. Tinker (1977), "Siting the Accounting Problematic: Towards an intellectual emancipation of accounting", journal of Business Finance and Accounting, Vol 4, No 3, pp 263-77.

Lukes S. (1974), Power – *A Radical View*, Macmillan Press Ltd.

Lunt H. (1992), "Corporate Governance", Company Accountant, October, pp 23-36.

Luoma P. and J. Goodstein (1999), "Stakeholders and Corporate Boards: Institutional Influences on Board Composition and Structure", Academy of Management Journal, Vol. 42, No. 5, pp 553-563

Mahapatra S. (1984), "Investors Reaction to Corporate Social Accounting", *Journal of Business Finance and Accounting*, Vol. 11, No 1, pp 29-40

McGuire J. B., A. Sundgren and T. Scheeweis (1988), "Corporate Social Responsibility and Finn Performance", *Academy of Management Journal*, Vol 31, pp 354-372.

McGuire J. B., T. Schneeweis, and J. Hill, (1986), "An analysis of alternative measures of strategic performance", In R. Lamb and Stravastava (Eds.), Advances in Strategic management, vol4: 107-153. Greenwich, Conn.: JAI Press.

Mallin C. (1995), "Voting: the Role of Institutional Investors in Corporate Governance", *Research Board, Institute of Chartered Accountants in England and Wales.*

March J. G. and H. A. Simon (1958), *Organizations*, New York: Wiley.

Mathews M. R. (1993), *Socially Responsible Accounting*, Chapman & Hall, London.

Mathews M. R. (1997), "Twenty-five Years of social and environmental accounting research – Is there a Jubilee to celebrate?", *Accounting, Auditing and Accountability Journal*, Vol. 10, No. 4, pp 481-531.

Maurer J. G. (1971), *Readings in Organization Theory: Open-System Approaches*, Random House, New York, cited in Woodward *et al* (1996).

May T. (1997), *Social Research: Issues, methods and process*, OUP: Buckingham.

Merriam S. B. (1988), *Case Study Research in Education: A Qualitative Approach*, San Francisco: Jossey-Bass.

Miller P. (1991), "Accounting innovation beyond the enterprise: problemizing investment decisions and programming economic growth in the UK in the 1960s", *Accounting, Organization and Society*, Winter, Vol 16, No 8, pp 733-62

Mills D. L. and M. L. Grander (1984), "Financial profiles & the disclosure of expenditures for socially responsible", *Journal of Business Research*, Vol 12, December, p407-18

Milne M. J. and R. W. Adler (1999), " Exploring The Reliability of Social and Environmental disclosures Content Analysis", *Accounting, Auditing and accountability Journal*, Vol 12, No 2, 1999, pp 237-256.

Modern Company Law For A Competitive Economy: Company General Meetings and Shareholder Communication (1999), Company Law Review Steering Committee, Department of Trade and Industry.

Monks R. (1993), "Growing Corporate Governance: from George III to George Bush", pp 165-176 in B. Sutton eds *The Legitimate Corporation*, Basil Blackwell: Oxford.

Monks R. A. G. and N. Minow (1995), *Corporate Governance*, Blackwell.

Moser C. and G. Kalton (1983), *Survey Methods in Social Investigation*, Heinemann: London.

Moskowitz M. (1972), "Choosing socially responsible stocks"; *Business and Society Review*, Vol 13, pp 71-75.

Moskowitz M. (1975), "Profiles in Corporate Social Responsibility", *Business and Society Review*, Vol 13, pp 29-42.

Moussavi F. and D. Evans (1986), "An Attributional Approach to Measuring Corporate Social Performance", Paper presented at the Academy of Management meeting, San Diego. Cited in McGuire, Sundgren and Scheeweis (1988).

Nachmias C. F. and D. Nachmias (1996), *Research Methods in the Social Sciences*, 5th Edition, London, Arnold – Hodder Headline Group.

Navarro P. (1988), "Why Do Corporations Give to Charity?", Journal of business, pp 65-93.

Ness K. E. and A. M. Miraz (1991), "Corporate Social Disclosure", *British Accounting Review*, Vol 23, No 3, pp 211-217.

Ng L. W. (1985), "Social responsibility disclosures of selected New Zealand companies for 1981, 1982 and 1983", *Occasional paper n. 54*, faculty of Business, Massey University, cited in Mathews (1993).

Norberg M., A. J. Campbell and A. Verbeke (1996), "Can market-based substitute for alliances in high technology markets?", Journal International Business Studies, 1996, vol27, No 5, p917-63.

Norusis M. J. (1995), *SPSS 6.1 Guide to Data Analysis*, Prentice Hall, Englewood Cliffs, New Jersey.

Office of gas Supply (1997), *Ofgas' Submission to The Review of Utility Regulation*, November, (http://www.ofgas.gov.uk/docs/submiss1.htm).

Owen D. L. (1990), "Towards a Theory of Social Investment: A Review essay", *Accounting, Organization and Society*, Vol 15, No 3, pp 249-66.

Owen D. L. (1992), *Green Reporting: The Challenge of The Nineties*, London Chapman and Hall.

Owen D. L., R. H. Gray and K. Maunders (1987), "Researching the information Content of social responsibility disclosure: a comment", *British Accounting Review*, Vol 19, No 2, pp 169-76.

Owen D. and G. Lehman (2000), "Social and environmental accounting: trends and directions for the future", *Accounting Forum*, Vol 34, No 1, pp1-4.

Owen D. L., T. A. Swift and C. Humphery (2000), "The New Social Audits: Accountability, Managerial Capture or the Agenda of Social Champions", *The European Accounting Review*, Vol 9, No 1, pp 81-98.

Pang Y. H. (1993), "Disclosure of corporate social responsibility", *Chartered Accountant in Australia*, cited in Mathews (1993)

Parker A. (1997), "The Expert View: Ben & Jerry's Homemade, Inc, US", in Zadek S., Pruzan P. And R. Evans (1997).

Parker L. D. (1986), "Polemical Themes in Social Accounting: Scenario for Standards Setting", *Advances in Public Interest Accounting*, Vol. 1, pp 67-93.

Parker L. D. (1991), "External Social Accountability: Adventures in a Maleficent World", Advances in Public Interest Accounting, Vol. 4, pp 23-34.

Parket R. and H. Eilbirt (1975), "Social Responsibility: The Underlying Factors", *Business Horizons*, Vol 18, 1975, pp 5-10.

Parsons T. (1956), "Suggestions for a sociological approach to the theory of organisations", *Adminstrative Science Quarterly*, Vol 1, pp 63-85.

Parsons T. (1967), *Sociological Theory and Modern Society*, New York: The Free Press; London: Collier-Macmillan, 1967, cited in Lukes S. (1974).

Patten D. M. (1992), "Intra-industry environmental disclosures in response to the Alaskan oil spill: a note on legitimacy theory", *Accounting, Organizations and Society*, Vol 17, No 5, 1992, pp 471-5.

Pearce J. A. (1986), "The Company mission as a strategic tool", *Sloan Management Review*, Spring, pp15-24.

Peel J. M. and M. Pendlebury (1999), *Employee Share Ownership and Financial Awareness: Some Further Evidence*, ACCA Research Report, London, CAET.

Peel J. M., M. Pendlebury and R. E. V. Groves (1991), *Employee Share Ownership 'Financial Awareness' and the Reporting of Financial Information to Employees*, , ACCA Research Report, London, CAET.

Perkins G (1986), *Employees Communications in the Public Sector*, Institute of Personnel Management, Chameleon Press.

Perry J. M. and K. L. Kraemer (1986), "Research methodology in the public administrative review", *Public Administrative Review*, 46, pp215-226.

Preston L. E. and J. E. Post (1975), *Private Management and Public Policy*, Endlewood Cliffs, NJ: Prentice-Hall.

Prodham B. (1993), "Corporate Governance and Long-term Performance", Management Research Paper, The Oxford Centre of Management Studies, Templeton College, May.

Puxty A. G. (1986), "Social accounting as Immanent Legitimisation: A Critique of Technics Ideology", *Advances in Public Interests Accounting*, Vol 1, pp 95-112.

Puxty A. G. (1991), "Social accountability and universal pragmatics", *Advances in Public Interest Accounting*, Vol 4, pp35-46.

Raffouriner B. (1995), " The Determinants of Voluntary Financial Disclosure By Swiss Listed Companies", *European Accounting Review*, Vol 4, No 2, pp 261-80.

Rapoport R. N. (1970), three dilemmas in action research. Human Relations, 23(6), p499-513.

Revitalising Health and Safety (2000), Health and Safety Commission, strategy Statement, June.

Roberts C. B. (1991), "Environmental Disclosures: a note on Reporting Practices in Europe", *Accounting, Auditing and Accountability Journal*, Vol 4, No 3, pp 62-71.

Roberts R. W. (1992), "Determinants of Corporate Social Responsibility Disclosure: an Application of Stakeholder Theory", *Accounting, Organization and Society,* Vol 17, No 6, pp 595-612.

Roberts J. and R. Scapens (1985), "Accounting Systems and Systems of Accountability", Accounting, Organizations and Society, Vol 10, No 4, pp 443-56

Ronen J. (1979), The Dual Role of Accounting: A Financial Economic Perspective, in J. L. Bicksler (ed), Handbook of Financial Economics, pp 415-454, north-Holland, 1979.

Room G. (1994), "European Social Policy: Competition, Conflict and Integration", in R. Page and J. Baldock (eds), *Social Policy Review 6* (Canterbury: Social Policy association), 1994, pp 17-35.

Rosenfield P. (1974), "Stewardship", In *Objective of Financial Statements,* Vol 2, Selected papers, New York: AICPA.

Sapsford R. and V. Jupp (1996), *Data collection and analysis,* Sage: London.

Saunders M., P. Lewis and A. Thornhill (1997), *Research Methods for Business Students,* Pitman: London.

Sekaran U. (1992), *Research Methods for Business: A Skill – Building Approach,* 2nd Edition, New York: John Wiley and Sons Inc.

Select Committee of House of Commons, *Report on the Companies Act 1862 and 1867; Together with the Proceedings of the Committee, Minutes of Evidence and Appendix, 1877.*

Self-reported Working Conditions in 1995, HSE Book, 1997.

Sethi S. P. (1975), "Dimensions of corporate Social Performance: An Analytical Framework", *California Management Review,* Vol 17, NO 3, pp58-74.

Sharp J. A. and K. Howard (1996), *The Management of A Student Research Project* (2nd Edition), Aldershot, England: Gower Publishing Ltd.

Shleifer A. and L. Summers (1987), "Hostile Takeovers as breaches of Trust", *Hostile Takeovers as breaches of Trust, LSE Financial Markets Group, London, 1987*

Shocker A. D. and S. P. Sethi (1973), "An approach to Incorporating Social Preferences in Developing Corporate Social Actions", in S. P. Sethi, *The Unstable Ground: Corporate Social Policy in a Dynamic Society.* Melville, CA (1974)

Short H. and K. Keasey (1997), "Institutional Shareholders and Corporate Governance" in Keasey and Wright (1997).

Singhvi S. and H. Desai (1971), "An Empirical Analysis of the Quality of Corporate Financial Disclosure", *The Accounting Review,* Vol 46, pp 129-38.

Silverman D. (1993), *Interpreting Qualitative Data: Methods for analysis talk, text and interaction,* Sage: London.

Smith C. and R. Watts (1982), "Incentive and Tax Effects of US Executives Compensation Plans", *Australian Management Journal,* Vol 7, December, pp 139-157.

Smith C. and R. Watts (1986), "Competitive and Opportunity Set and Corporate Choices", Working paper, University of Rochester.

Spicer B. H. (1978), "Accounting for Corporate social Performance: Some Problems and Issues", *Journal Contemporary Business*, Vol 7, pp151-170.

Stanton P. A. (1997), "Users' rights to published accounting information: nature, justification and implications", *Accounting, Auditing & Accountability Journal*, Vol 10, No 5, pp 684-701.

Stevens W. P. (1982), "The Market Reaction to Corporate Environmental Performance", a paper presented at the American Accounting Association Annual Conference, San Diego. Cited in Mathews M. R. (1993).

Starkley K. (1995), "Opening up Corporate Governance", *Human Relations*, Vol 48, No 8.

Stewart J. D. (1984), "The role of information in public accountability" in *Issues in Public Sector Accounting*, Hopwood A. And C. Tomkins (eds) Oxford: Philip Allen.

Stock Exchange Yearbook 1994-1995, The Macmillan.

Sturdivant F. D. (1979), "Executive and Activists: Test of Stakeholder Management", *California Management Review*, Fall, pp 53-59.

Sturdivant F. D. and J. L. Ginter (1977), "Corporate Social Responsiveness, Management Attitudes and Economics Performance", *California Management Review*, Vol XIX, No 3, pp 30-39.

SustainAbility, in association with UNEP, the New Economics Foundation and 16 participating companies, *Engaging Stakeholders, Volume 1: The Benckmark Survey – The second international progress report on company environmental reporting* and *Volume 2: The Case Studies – Twelve users respond to company environmental reporting, 1996*, Cited in Elkington (1999).

Taylor (1988), "Letter: 'A Company Has At Least Four Stakeholding", *The Financial Times*, 24, August.

The Oxford Dictionary and Thesaurus (1997), Oxford University Press, Oxford.

Tinker A. M. (1977), "Predictive Ability and the Poverty of Empiricism", Unpublished, University of Sheffield (1977), cited in Cooper and Sherer (1984)

Tinker A. M. (1980), "Towards a Political Economy of Accounting: An Empirical illustration of the Cambridge Controversies", *Accounting, Organisations and Society*, Vol 5, No 2, pp 147-60.

Tinker T., C. Lehman and M. Neimark (1991), "Falling Down the Hole In The Middle of The Road: Political Quietism in Corporate Social Reporting", *Accounting, Auditing and Accountability Journal*, Vol 4, No 2, pp 28-54.

Tilt C. A. (1994), "The Influence of External Pressure Groups on Corporate Social Disclosure – Some Empirical Evidence ", *Accounting, Auditing & Accountability Journal*, Vol 7, No 4, pp 47-72.

Tilt C. A. (1998), "The Content and Disclosure of Corporate Environmental Policies: An Australian Study", presented at Asia Pacific, Interdisciplinary Research In Accounting Conference, Osaka University, August 4-6.

Tricker R. I. (1983), "Corporate responsibility, institutional governance and the roles of accounting standards", in *Accounting Standards Setting – An International Perspective* Bromwich M. and Hopwood, A. G. (eds) London: Pitman.

Trotman K. T. and G. W. Bradley (1981), "Associations between social Responsibility Disclosure and Characteristics of Companies", *Accounting, Organization and Society*, Vol 6, No 4, pp 355-362

Turnbull Report (1999), *Internal Control – Guidance for Directors of Listed companies Incorporated in the United Kingdom*, Institute of Chartered Accountants in England and Wales, April.

Ullmann A. (1985), "Data in search of theory: A Critical Examination of the Relationships Among Social Performance, Social Disclosure, and Economic Performance", *Academy of Management Review*, Vol 10, 1985, pp 540-577.

Unerman J. (2000), "Methodological issues, reflections on quantification in corporate social reporting content analysis", *Accounting, Auditing and Accountability Journal*, Vol 3, No 5, pp 667-680.

Vance S. C. (1975), "Are Socially Responsible Corporate Good Investment Risks", *Management Review*, August, pp 18-24.

Veal A. (1992), *Research Methods for Leisure and Tourism*, Longman: London.

Wallace R. and K. Naser (1995), "Firm-specific Determinants of The Comprehensiveness of Stock Mandatory Disclosure in The Annual Reports of Firms Listed on The Stock Exchange of Hong Kong" *Journal of Accounting and Public Policy*, Vol 14, pp 311-68.

Watson D. (1997), "Underpayment in UK: Implication for Minimum Wage", *Middlesex University*, Mimeo.

Weber R. P. (1990), *Basic Content Analysis*, second edition, Sage Publications.

Wickersham C. (1995), "A News Round-up Union Membership", *CORNER Employer's Briefing*, Issue No 89, 26 September, p 2.

Wilkes F. M. and J. M. Samuels (1991), "Financial Appraisal to support Technological Investment", *Long Range Planning*, Vol 24, No 6, pp 60-66.

Williamson O. E. (1963), "A Model of Rational Managerial Behaviour", in R.M Cyert and J. G. March, *A Behaviourial Theory of the Firm*, Englewood Cliffs: Prentice Hall, 1963.

Williamson O. E. (1970), *Corporate Control and Business Behaviour*, Englewood Cliffs, N. J.: Prentice-Hall.

Wilmshurst T. D. and G. R. Frost (2000), "Corporate Environmental Reporting – A test of legitimacy Theory", Accounting, Auditing and Accountability Journal, Vol. 13, No. 1, pp 10-26.

Windsor D. and L. E. Preston (1988), "Corporate governance, Social Policy, and Social Performance in the Multinational Corporation", *Research in Corporate Social Performance and Policy*, Vol 10, pp 45-58.

Wiseman J. (1982), "An Evaluation of Environmental Disclosures Made in Corporate Annual Reports", *Accounting, Organization and Society*, Vol 7, No 1, pp 53-63

Whittington G. (1993), "Corporate Governance and the Regulation of Financial Reporting", *Accounting and Business Research*, Vol 23, No 91A, pp 311-19.

Wooward D. G., P. Edwards and F. Birkin (1996),"Organizational Legitimacy and Stakeholder Information Position", *British Journal of Management*, Vol 7, pp 329-347.

Yin R. K. (1981a), "The case study as a serious research strategy", *Knowledge: Creation, Diffusion, Ultilization*, Vol 3, pp 97-114.

Yin R. K. (1981b), The case study crisis: Some answers, *Administrartive Science Quarterly*, Vol 26, pp 58-65.

Yin R. K. (1994), *Case Study Research: Design and methods*, Sage: Thousands Oaks, Second Edition.

Zadek S. and P. Evans (1993), *Auditing the Market: A practical approach to social accounting*, London: New Economics Foundation.

Zadek S., P. Pruzan and R. Evans (1997), *Building Corporate Accountability – Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*, Earthscan Publications Ltd, London.

Zéghal D. and S. A. Ahmed (1990), "Comparison of Social Responsibility Information Disclosure Media used by Canadian Firms", *Accounting, Auditing and Accountability Journal*, Vol 3, No 1, pp 38-53.

APPENDIX 2

SECTION 2A

Development of Accounting Practice and The Needs for Information Disclosure over the years

A useful way to see the purposes served by accounting is to review the way accounting has been developed over the years within its social and organisational contexts. While the social context includes all the issues in the environment external to an organisation ranging from political, economic to social issues, the organisational context covers all internal issues, mainly managerial. Although this section does not review accounting history but it briefly looks at the stages through which accounting profession has been developed. This provides a better understanding of how accounting has been developed over the years due to social changes.

Accounting history is defined as "... the study of the evolution in accounting thought, practices and institutions in response to changes in the environment and societal needs" (Committee on Accounting History – cited in Belkaoui, 1992: p 13).

The shareholders, who did not have the technical knowledge, experience or the commitment to manage the company had to employ salaried managers to run companies on both short and long-term basis. This generated a new class and a new phenomena called 'managerial capitalism' (Chandler, 1977), leading to the introduction of a whole new concept of information communication. In 1877, Newmarch explained the difference between a private partnership and a joint stock company and how the difference leads to the need for information communication. Newmarch (1877, as quoted in *Select Committee*, 1877) argues that:

> "... it must be remembered that the difference between a joint stock company ... and a private partnership is this, that the private partnership consists of two, three, four, five, or half-a-dozen persons who are in constant communication with each other, and who have the means, therefore, of confidential discussion regarding the whole affairs of the concern; whereas in the case of joint stock company it is a collection of miscellaneous persons, not in communication with each other at all, only so in very imperfect manner; the business of the company must be necessarily in the hands of the shareholders reasonably informed of what is actually being done by the people who administer the affairs of the company" (*Select Committee*, 1877: q. 724)

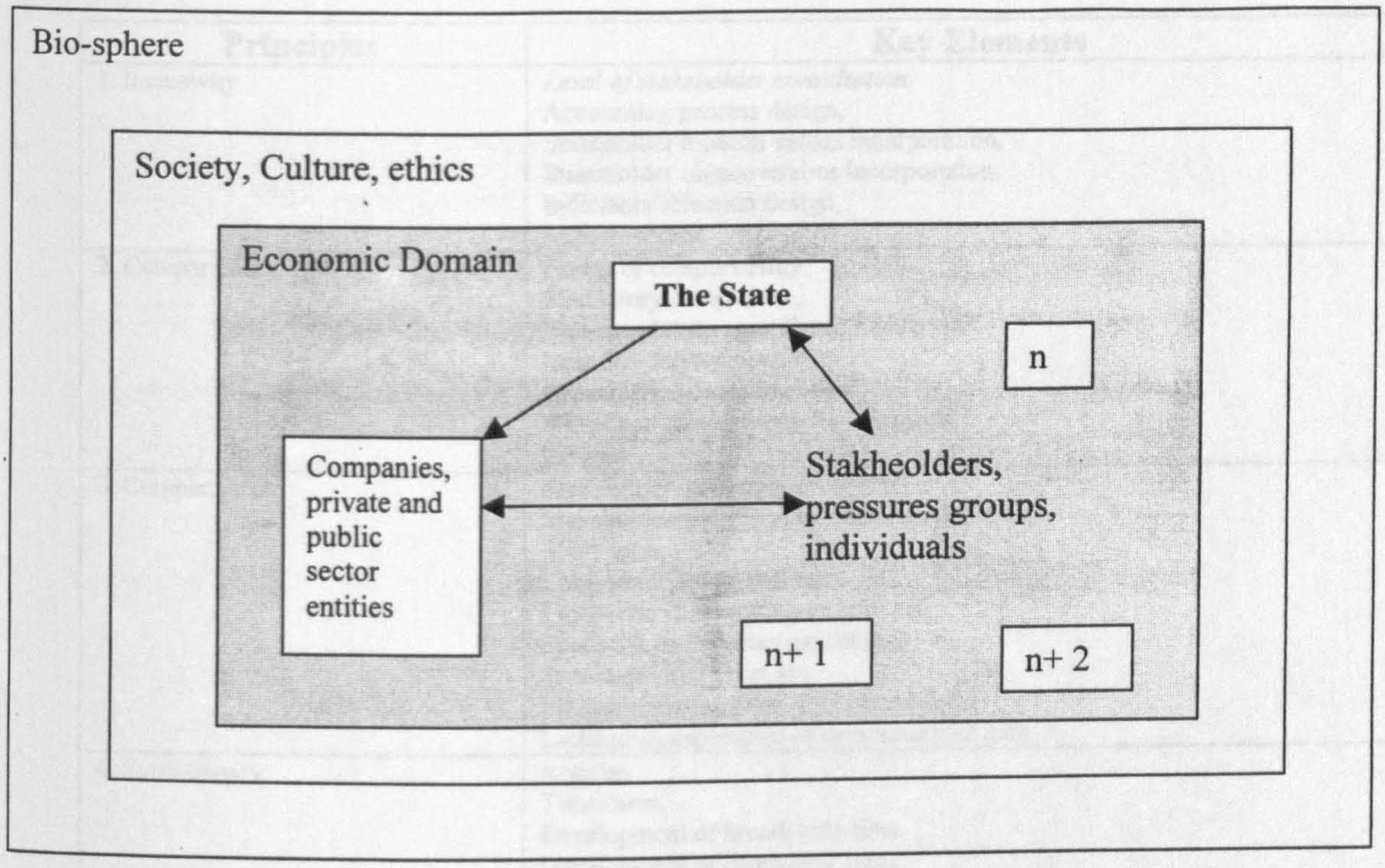
Since the late 19^{th} century, listed companies have been providing information to their shareholders and the general public on their financial performance. Over the years the concept of information reporting went through changes alongside with political and social changes that took place in the external environment.

TABLE 2A CHARACTERISTICS OF DECISION USEFULNESS AND ACCOUNTABILITY APPROACH

Characteristics	*Decision Usefulness*	*Accountability*
Parties to the information	Organisation and Users of Information	Agent and Principal
Parties determined by	Habit, convention, or assumption	Existence of a contract
Rights to information determined by	Assumption or equated with need	By contract
Recipients of information assumed to be	Investors, credits and others	Society-at-large and groups within society
Orientation of information	Future decisions of recipients	Past and future responsibility of organization
Content of information determined by	Imputed or estimated user demand or what users should want	Responsibility for activity imposed upon agent by principal
Reporting is assumed to be	Demand-driven	Responsibility-driven
Communication criteria	Information must reach recipient	Information must be available to principal
Descriptive power	Very low	Distinguish between enforceable and non-enforceable contracts and ex gratia disclosure
Normative validity	Presupposes users rights	Set within status quo of law and quasi-legal requirements

Source: Adopted from Gray, Owen and Maunders (1991: p4)

FIGURE 2A A SIMPLE NEO-PLURALIST VISUALISATION OF SOCIETY



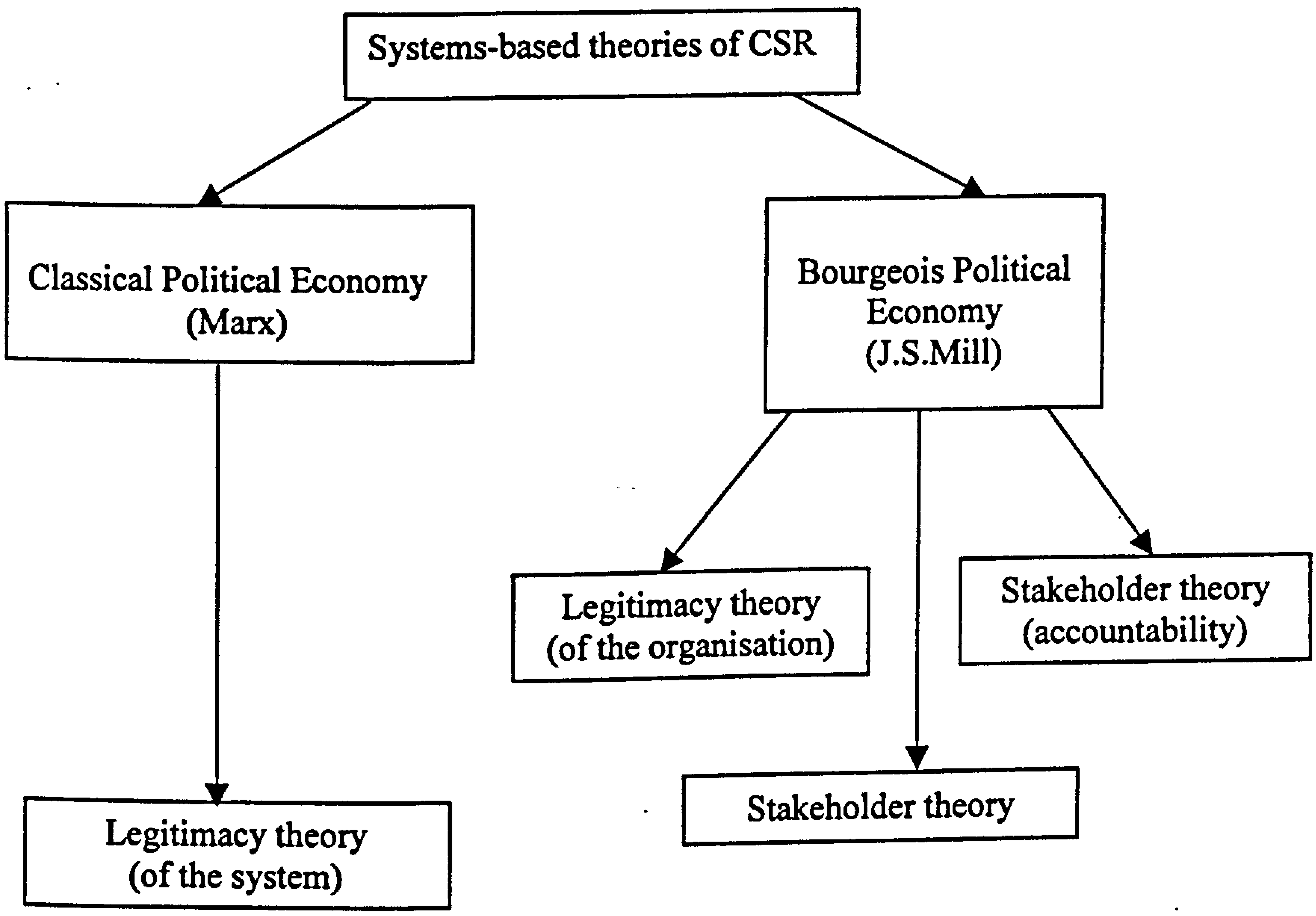
Source: Adopted from Gray, Owen, and Adams (1996: p34).

Table 2B Social and Ethical Accounting and Auditing: Key Elements

Principles	Key Elements
1. Inclusivity	*Level of stakeholder consultation:* Accounting process design, Stakeholder mission values incorporation, Stakeholder objective/aims incorporation, Indicators selection design, Impact/income
2. Comparability	*Forms of comparability:* Mandatory compliance, Non-mandatory compliance, Inter-industry/company, Organisation score over time, Social and ethical norms/benchmarks, Targets
3. Completeness	*Stakeholder coverage:* Stakeholder identification/acknowledgement, Short-term, Long-term (retrospective), Long-term (forward commitments), Feedback on previous disclosure, *Sustainability Linkages:* Linkage/incorporation of financial data, Linkage/incorporation of environmental data
4. Evolutionary	Regular, Timeliness, Development of breath over time, Development of depth over time, Responsiveness of scope to feedback, Responsiveness of scope to 'pinch points' (hot spots)
5. Management policies and systems	Overall social and ethical policy statement, Stakeholder-specific social policies, Management systems, Responsibility and accountability guidelines, Internal auditing procedures and practice, *Social and ethical review:* Management reports, Board reports
6. Disclosure	Publication of social statement (summary of social/ethical accounts), Completeness, Intelligibility, Usability, Accessibility (includes cost of access to stakeholders)
7. External Verification	Third party, Published verifier's report, Coverage of verification, Audit review panel, Verifier qualification/accreditation
8. Continuos Improvement	Targets/commitments Stakeholder perspectives over time Reporting on stakeholder feedback Benchmarks

Source: Zadek *et al* (1997: p 229-230)

FIGURE 2B A TENTATIVE SCHEMA OF POLITICAL AND SYSTEMS-BASED THEORIES OF CSR



Source: Gary, Owen and Adams (1996: p 49).

TABLE 2C PERIODISATION ANALYSIS

Hegemonic Regime (approximate dates of inception)	Period Characteristics	CSR Characteristics
Brilivian (1965-)	Extensive merger boom resulting in new conglomerates based on speculative motive as well as falling share prices	Ignorance of the accountability of companies to their societies as a whole, Attention was paid to shareholders and debtholders
Caring Society (1970-)	Great society era – concerns about the social responsibility of government and corporations	Calls for the recognition of the impact of business on those outsiders by impounding externalises in financial statements, involving: development of social cost reporting and social audits to assess whether companies were fulfilling their social obligations
Caring Market (1974-)	The threat of Stagflation to the capitalism, ushering in Reaganism and Thatcherism	The re-establishment of market of efficiency as the touchstone of both corporate performance and accounting policy, researchers attempted to show investors react positively to social responsible behaviour and information disclosure
Market Re-Regulation (1976-)	Intense market ideology; attacks on liberal excesses, severe cutbacks in state welfare, revival of patriotism and militarisation, deregulation of business	Agency problem focused on the problem of the separation of ownership and control
Radical (1980-)	The persistence of the underlying social antagonisms and the complicity of accountants	The rejection of pluralist thinking by documenting the structural in equalities and disadvantages of contemporary capitalism and how they animate the movement of capitalism from one crisis to the next

Source: complied from Tinker, Lehman and Neimark (1991)

TABLE 2D TEN TRANSITION TOWARDS SUSTAINABILITY REPORTING

Established Focus on:		Emerging focus on:
1. One-way, passive communication	→	Multi-way, active dialogue
2. Verification as an option	→	Verification as standard
3. Single company reporting	→	Benchmarkability
4. Management Systems	→	Life Cycles, Business Design, Strategy
5. Inputs and Outputs	→	Impacts and Outcomes
6. Ad-hoc operating standards	→	Global operating standards
7. Public relations	→	Corporate governance
8. Voluntary reporting	→	Mandatory reporting
9. Company sets reporting boundaries	→	Boundaries set by stakeholder dialogue
10. Environmental performance	→	Triple bottom line performance

Source: SustainAbility/UNEP (1996, as quoted in Elkington,1999: p172).

APPENDIX 3A

The Latest Development in Regulatory and Statutory Requirements

There are no statutory and regulatory reporting requirements in regard to social information. The 'Turnbull report' was published in 1999, under the title of "Internal Control: for Directors on the Combined Code". The prime objective of Turnbull report is to establish a system of risk management and internal control in order to safeguard shareholders' investments and the company's assets. According to the Turnbull report, companies are required to report on how appropriate their processes are in identifying, evaluating and managing significant risks and whether their boards review the effectiveness of risk management process. However, the company has no obligation to disclose the identified risks. The Appendix to Turnbull report states that "significant risks may for example include those related to markets, credit, liquidity, technological, legal, health and safety and environmental, reputation and business probity issues" (*Internal Control*, 1999: p13). The last two issues are directly related to how socially responsible a company is.

According to the Combined Code the board is responsible to "... maintain a sound system of internal control to safeguard shareholders investments and the company's assets" (*Internal Control*, 1999: p3) and "the directors should, at least annually, conduct a review of the effectiveness of the groups system of internal controls and should report to shareholders that they have done so. The review could cover all controls, including financial, operational and compliance controls and risk management" (*Internal Control*, 1999: p3).

There is one potential statutory requirement expected to be introduced. Companies in breach of stock market listing rules, which set out the obligations of publicly quoted companies on the London Stock Exchange, could face unlimited fines from the Financial Services Authority (*The Times*, 18 January 2001). Proposals to introduce fines is followed by an extension of the Financial Services Authority's powers last year to include authority over the listing requirements of the London Stock Exchange. Previously the London Stock Exchange handled the listing requirements for all companies traded in the UK. It did not have the power to impose penalties against companies found to have broken the listing rules, although there was the threat of de-listing. A legislative requirement could result from the changes proposed in the company Law Review Steering Group's Consultation Document in March 2000, together with subsequent reports, to wider public disclosure of business risks.

The Company Law Review proposes that public and very large private companies should include in their full annual report a new statutory Operating and Financial Review (OFR) which would allow users to properly assess the performance, future plans and prospects of the business. The OFR would contain information on the company's relationships with employees, customers, suppliers, its reputation and its impact on the community and the environment.

If these proposals were to become law they would add even greater pressure for the management on the disclosure of social information.

APPENDIX 3B

Equal opportunity Legislation In Britain
1. Disabled Persons (Employment) Act 1944
2. Disabled Persons (Employment) Act 1958
3. Race Relation Act 1965
4. Race Relation Act 1970
5. Equal Pay Act 1970
6. Rehabilitation of Offenders Act 1974
7. Fair Employment (Northern Ireland) Act 1974
8. Sex Discrimination Act 1975
9. Race Relations Act 1976
10. Employment Protection (Consolidation) Act 1978
11. Companies (Directors' Report) (Employment of Disabled Persons) Regulations 1980
12. Equal Pay (amendment) Regulations 1983
13. Sex Discrimination Act 1986
14. Fair Employment (Northern Ireland) Act 1989
15. Trade Union Reform and Employment Rights Act 1993
16. Disability Act 1995

Source: Adams and Harte (1999: p3)

Business Initiative	
Opportunity 2000	Race for equality and the Employers' Forum on Disability

Source: Adams and Harte (1999: p14)

APPENDIX 3C

The major part of the literature on communication and consultation focuses on communication with employees and little attention has been paid to communication with other stakeholder groups. As the nature of the relationship between companies and each of their stakeholders varies, so does the nature of the communication between them. Despite this variation, there is expected to be a common ground for communication with all stakeholder groups.

Some of the reasons why companies communicate with their employees are shown here. For example, Arnott, Minton and Wilders (1981) outlined the reasons why employers communicate with their employees. They presented their reasons according to their importance as follows:

1. Make organization work better
2. Improve morale
3. Employees have a right to know
4. Improve productivity
5. Gain acceptance of change
6. Make managers manage
7. Reduce industrial disputes
8. Moderate wage claims
9. Increase flexibility
10. Legal requirements
11. Trade union pressures
12. General social trends
13. Pre-empt expected legislation
14. Employee pressures

Although some of the above reasons apply to stakeholders only, some other reasons apply to other stakeholders as well. Also, Perkins (1986) argues that even tough the reasons why companies decide to communicate with their employees change over time, " ... the underlying desire for communication rests on the following proposals:

(i) to harness the knowledge of all employees to make the organization more efficient by encouraging feedback and thus improving decision making,
(ii) to improve employee morale which may have been reduced, in the public sector, by political decisions taken nationally,
(iii) to reduce alienation by explaining to employees how their jobs contribute to the overall organization,
(iv) to increase the overall awareness about the financial state of the organization and the restraints under which it must work,
(v) to provide a background to realistic expectations about pay and conditions,
(vi) to ensure day to day feedback about problems being encountered in providing the service,
(vii) to improve motivation,
(viii) to improve understanding about the need for change and what this will mean,
(ix) to increase the level of trust and reduce the scope of conflicts based on ignorance,
(x) to ensure that employees can present the aims and activities of organization to the outside world,

(xi) because communication, if not carried out by the organization, will be carried out by others who may not have the full facts or may deliberately distort them." (pp6-7)

At the same time, Bland and Jackson (1990) point out the disadvantages of poor internal communication. According to them, poor internal "...communication leads to:

- a lack of understanding of company objectives
- the inability to carry out individual jobs to the highest possible standard
- a lack of perception of consumer demands and competitors' challenges
- poor relationships with immediate superiors
- criticism and misunderstanding between different departments and divisions
- the inability to give frank information to subordinates
- insufficient appreciation of the need for quality and excellence
- a preference for quick resource to industrial action rather than more lengthy discussion leading to harmonious solutions
- a general lowering of morale" (p16).

APPENDIX 4A

COMPANY	INDUSTRY	Company Profile
1. Aegis Group PLC	Media	Re-registered in December 1982 as a Public Limited Company. The company's name changed on 20-08-1986 from Wight Collins Rutherford Scott to The WCRS Group Plc; name changed on 08-05-1990 to Aegis Group Plc.
2. Allied Domecq PLC	Brewers & Distillers	Registered as a Private company in 1961 as Ind Coope TetlyAnsell Ltd, converted into public company in 1961. Name changed In 1963 to Allied Breweries Ltd. name changed and re-registered on 30-10-1981 under Companies Act 1980. Name changed on 19/09/1994 to Allied Domecq Plc.
3. Amalgamated Metal Corporation	Trade, Distribution and Manufacture of Metal and Metal Products and Chemicals	Re-registered in 1982 as a Public Limited Company under The Companies Act, 1980. In October 1995, the company de-listed and began trading as an unquoted company. The Ultimate Holding company Preussag AG (Germany).
4. AMEC PLC	Building & Construction	Incorporated on 02-11-1982. Re-registered on 02-11-1982 as a Public Limited Company Under The Companies Act 1980. The company was formed to effect the combination of Fairclough Construction Group Plc and William Press Group Plc.
5. Argyll Group PLC	Food Wholesaling & Retailing	The company's name changed on 02-06-1977 from Boybrush Ltd to James Gulliver Associates Ltd. Re-registered under The companies Act 1980 as Argyll Group.
6. Arjo Wiggis Appleton PLC	Packaging, Paper & Printing	Incorporated on 21-12-1989 as Peakgilt Plc. Name changed on 15-02-1990 to Wiggins Teape Appelton Plc, and to Arjo Wiggins Appelton Plc on 01-06-1991. Demerged from A.T. Industries Plc in June 1990 on distribution of ordinary shares for 25p to shareholders of B.A.T. Industries for every 3 Ord shares of that company.
7. Asda Group PLC	Food Wholesaling & Retailing	The company's name changed on 01-11-85 from Associated Diaries Group Ltd to Asda-MFI Group Plc and on 24-02-1988 to Asda Group Plc.
8. Associated British Foods PLC	Food Producers	Incorporated on 20-10-1934 as a private company; Converted into Public Company on 21-07-1936; became a Private Company on 14-11-1981; Re-registered on 23-05-1994 as a Public limited Company. The name changed on 02-12-1938 from George Weston Foods Ltd to George Weston Holdings Ltd and on 29-07-94 to Associated British Foods Plc. The Company's ultimate holding company is Wittington Investment Ltd, which owns 50.9% of the total Issued Ordinary hare Capital.

COMPANY	INDUSTRY	Company Profile
9. B.A.T Industries PLC	Tobacco	Incorporated 03-09-1928; Re-registered July 1981 as a Public Limited Company under the Companies Act, 1980. Name changed on 23-07-1976 from Tobacco Securities Trust Company Ltd to B.A.T. Industries Ltd. The company was formed to acquire certain shares in the subsidiary and associated companies of British-American Tobacco company Ltd. In July 1989, an offer for the company's shares was made by Hoylake Investment Ltd (a subsidiary of Anglo Group Plc), incorporate in Bermuda and formed specifically for making the offer. The offer lapsed in September 1989 due to insufficient acceptances. The demerger of Wiggins Teape Appelton Plc was effected on 31-05-1990 with the company's shareholders receiving one Wiggins Teape Appelton share for every 3 ordinary shares held in the company.
10. Bass PLCs	Breweries	Registered as a private company on 17-08-1967. Converted into a Public Company on 26-09-1967; Re-registered on 01-02-1982 as a public limited company under the Company's Act 1980. The company's name changed from Bass Charrington Ltd to Bass Plc on 25-01-1979. The Company was formed to implement the merger of Bass, Mitchells & Butlers Ltd and Charrington United Breweries Ltd.
11. Beazer PLC	Building & Construction	
12. Berisford PLC	Building Materials and Merchants	The company name changed on 24-11-1912 from S. & W. Berisford (1910) Ltd to S. & W. Berisford Ltd to Bersiford International Plc on 13-02-1989 and to Berisford Plc on 01-03-1995.
13. BET PLC	Business Support Services	Re-registered as a Plc under The Companies Act, 1980. The name changed on 06-09-1985 from the British Electric Traction Company Plc to BET Plc. The company was formed to acquire the undertaking of British Electric Traction (Pioneer) co Ltd with its underlying tramway undertakings. In February 1996, Rentokil Plc offered to acquire all the issued ordinary shares in the company. The offer was completed in July 1996 100% of ordinary shares have been acquired.
14. BICC PLC	Electronic & Electrical	Re-registered in March 1982 as a Plc under The Companies Act, 1980. The name changed on 01-07-1975 from British Equipment Insulated Cables Ltd and Callender's Cable and Construction Co Ltd.
15. BOC Group PLC (The)	Chemicals, Commodity	Ltd, and on 01-03-1982 to The BOC Group Plc.
16. Booker PLC	Food Products	The name changed on 07-06-1986 from Booker Brother McConnell & Co Ltd to Booker Mconell Ltd and on 02-07-1986 to Booker Plc.
17. Boots Company PLC (The)	Retailers, General	Re-registered in March 1982 as a Plc under the Companies Act, 1980. The name changed on 01-09-1971 from Boots Pure Drug Company Ltd to The Boots Company Ltd.

COMPANY	INDUSTRY	Company Profile
18. Bowater PLC	Packaging, Paper & Printing	The name was changed from Bowater North America Corpn to Bowater Inc in March 1984. In July 1984, a demerger was effected whereby Bowater Industries Plc's North American activities were transferred from Bowater Group to Bowater Inc. The demerger arrangements included the distribution of the company's Common stock to the holders of the ordinary shares in Bowater Industries pro rata to their existing holdings.
19. British Petroleum PLC	Oil, Integrated	
20. British Aerospace PLC	Engineering, Aerospace & Defence	Registered on 31-12-1979; Re-registered in January 1981 as a Public Limited Company under the Companies Act, 1980.
21. British Airways PLC	Transport	Incorporated on 13-12-1983 as a Public Limited company. The company was formed as a successor company to the British Airways Board. In February 1987, the British Government offered for sale to the public 720,200,000 ordinary shares of 25p in the company at 125p per share.
22. British Coal Corporation	Mines	Government's Ownership
23. British Gas PLC	Gas Distribution	Incorporated on 01-04-1986. In August 1986, the property, rights and liabilities of British Gas Corporation (other than the rights and liabilities in respect of the British Gas 3% Guaranteed Stock 1990-95) were vested in the company under the Gas Act 1986. In December 1986, 4,025,000,000 ordinary shares of 25p were offered for sale to the public by the British Government at 135p per share payable as to 50p on application, 45p on 09-06-1987 and 40p on 19-04-1988.
24. British Railways Board	Transport Services	Government's Ownership
25. British Steel PLC	Engineering, Metallaurgy	Incorporated on 26-07-1988. The company was formed to succeed to the business of British Steel Corporation. The vesting of The Property, rights and liabilities of British Steel corporation in the Company was made under the terms of the British Steel Act 1988 on 05-09-1988. In December 1988, 2,000,000,000 ordinary shares of 50p were offered for sales at 125p per share. On 02-11-1988, the company merged virtually the whole of its stainless steel manufacturing and distribution interests with Avesta AB from Avesta Sheffield AB.
26. British Telecommunications PLC	Telecommunications	Incorporate on 01-04-1984. The company was formed to carry on the business of a statutory corporation known as British Telecommunications. In November 1984, 3,012,000,000 ordinary shares of 25p were offered for sale at 130p per share. In December 1991 HM treasury sold a further 1,597m ordinary shares in the Company via a UK Public offer and an International Tender order.
27. BTR PLC	Diversified Industries	Re-registered in 1982 as a Plc under The Companies Act 1980.The company's name changed on 30-10-1969 from Lyland & Scheme of Arrangement, the company acquired the 37% minority of interest in BTR Nylex shareholders received A$180 in cash and 27 new group A shares for every 100 BTR Nylex Ord shares. Full cash alternative amounted to A$3.60 per BTR Nylex Ord share.
28. Bunge & Co.		Foreign Holding (Panama)

COMPANY	INDUSTRY	Company Profile
29. Burton Group PLC	Retailers, General	Named changed on 29-07-1929 from Montague Burton, the Tailor of Taste Ltd to Montague Burton Ltd and on 03-11-1969 to The Burton Group Ltd. The company was re-registered on 25-02-1982 as a Public Limited Company under the company Act, 1980
30. Burmah Castrol PLC	Oil, Integrated	Incorporated in Edinburgh on 15-05-1902; Re-registered on 02-11-1982 as a Public Limited Company under the Companies Act, 1980. In June 1986, the company sold its United Kingdom, United States and Colombian Oil exploration and production activities to premier Consolidated Oilfields Plc.
31. Buzel PLC		
32. Cable and Wireless PLC	Telecommunications	Re-registered on 05-06-1981 as a Public Limited Company under The Companies Act, 1980.
33. Cadbury Schweppes PLC	Food Products	The company was re-registered in 1981 as a Public Limited Company under the Companies Act, 1980. The name changed on 28-03-1969 from Schweppes Ltd to Cadbury Schweppes Ltd. Foreign Holding (USA)
34. Cargill UK		
35. Co-operative Wholesale Society Ltd (The)	Food Wholesaling & Retailing	Ltd
36. Coats Viyella PLC	Textiles	The name changed in March 1969 from The Spirella Company the Great Britian Ltd to Spirella Group Ltd, on 11-05-1976 to Vantina Group Ltd, in Feb 1983 to Vantona Viyella Plc and on 14-03-1986 to Coats Viyella Plc. In September 1975, the company merged with Vantona Ltd, in February 1983 with Carrington Viyella Plc and in August 1985 with the Nottingham Manufacturing Company Plc and in March 1986 with Coats Patons Plc.
37. Conoco (UK) LTD	Oil, Gas & Nuclear Fuels	Ltd
38. Courtlauds PLC	Chemicals	Incorporated on 03-04-1913; Re-registered on 01-03-1982 as a Public Limited Company under the Companies Act, 1980. The demerger of Courtaulds into a separate company took effect on 01-01-1990.
39. Dalgety PLC	Food Manufacturing	The company's named was changed on 23-11-1961 from Dalgety & Co Ltd to Dalgety & New Zealand Loan Ltd and on 01-07-1970 to Dalgety Ltd. The company was re-registered on 07-01-1982 as a public limited company under the company's Act, 1980
40. Dee Corporation PLC		Registered as a private company on 11-03-1974 as Dikappa (Number 20) Ltd, name changed to Linfood Holdings Ltd on 18-12-1974; converted into Plc under The Companies Act 1980; Name changed on 22-09-1983 to Dee Corporation Plc, and on 16-09-1988 to Gateway Corporation Plc (The), a subsidiary of Isoceles Plc through DMWSL 032 Plc. On 30-04-1994, Gateway Group Plc (The) changed its name to Somerfeild Holdings Ltd.
41. Dixons Group PLC	Stores	The name changed in 1962 from Dixon studios Ltd to Dixon Photographic Ltd and on 08-11-1982 to Dixon group Ltd. Re-registered on 04-07-1981 as a public limited company under the Company act 1980.

COMPANY	INDUSTRY	Company Profile
42. Dreyfus [Louis] & Co Ltd	Commodities Trading	Ltd
43. Engelhard Ltd	Metal & Metal Forming	Ltd
44. ESSO UK PLC	Oil, Gas & Nuclear Fuels	Foreign Holding
45. Ford Motor Co Ltd	Transport Manufacture	Ltd
46. Forte PLC	Hotels & Leisure	The name changed in December 1906 from Hertfordshire Public House Trust Co Ltd to Herts & Essex Public House Trust Co Ltd, in April 1910 to Home Counties Public Houses Trust Ltd, on 26-06-1970 to Trust Hoses Forte Ltd, on 04-06-1979 to Trusthouse Forte Plc and 03-06-1991 to Forte Plc.
47. Gallaher Ltd	Tobacco	Ltd
48. George Weston Holdings	Food Manufacturers & Distributors	See Associated British Foods Plc.
49. George Wimpey		
50. General Electric Company PLC	Electronics	The company was re-registered in 1982 as a Public Limited Company under the Companies Act 1980. Named changed on 24-08-1903 from General Electric Company Ltd to The General Electric Companies Ltd and on 17-09-1970 to The General Electric Company Ltd.
51. Gill & Dufus Group		Became a subsidiary of Dalgatey in 1985
52. GKN PLC	Engineering - General	The name changed in 1902 from Guest, Keen & Co Ltd to Guest, Keen & Nettlefolds Ltd and on 02-06-1986 to GKN Plc.
53. laxo Holdings PLC	Health & Household	Re-registered on 31-12-1980 as a Public Limited Company under the Companies Act, 1980.
54. Granada Group	Entertainments	The company was re-registered in 1981 as a public limited company under The Company Act 1980.
55. Grand Metropolitan PLC	Brewers & Distillers	Re-registered on 08-03-1982 as a Public Limited Company udder The Companies Act, 1980.
56. Great Universal Stores PLC	Stores	Re-registered in April 1982 as a Plc under the Company Act 1980.
57. Guinness PLC	Brewers & Distillers	The company's name was changed in 1982 from Arthur Guinness Son and Co Ltd to Arthur Guinness and Sons Plc and in May 1985 to Guinness Plc.
58. Hanson PLC	Conglomerates	The name changed on 27-06-1963 from C.Wiles Group Ltd, in November 1969 to Hanson Trust Ltd and on 03-12-1987 to Hanson Plc.
59. Harrison & Crossfield PLC		Re-registered on 25-03-1982 as a Plc under The Companies Act, 1980.
60. Hawker Siddeley Group Plc		Registered on 11-07-1935; re-registered in 1981 as a Plc under the Companies Act, 1980. Under the Aurcraft and Shipbuilding Act 1977 (qv) 2 subsidiaries (Hawker Siddeley Aviation Ltd and Hawker Siddeley Dynamics Ltd) were nationalized on April 1977. The name changed in June 1984 from hawker Siddeley Aircraft Co Ltd to Hawker Siddeley Group Ltd.

	COMPANY	INDUSTRY	Company Profile
61.	Hillsdown Holdings PLC	Food Manufacturing	The name changed on 27-05-1970 from Saledene farmers Ltd to Hilsdown farms Ltd and in July 1975 to Hilsdown Holdings Ltd. The company was re-registered as a Plc on 25-07-1985 under the companies Act, 1980.
62.	IBM United Kingdom	Electronics	Ltd Holdings Ltd
63.	ICL PLC	Electronics	The name changed in September 1936 from The Accounting and Tabulating Corporation of Great Britain Ltd to Powers. Accounting Machines Ltd, on 30-06-1948 to Powers-Samas Accounting Machines Ltd, on 14-02-1977 to ICL Ltd, in April 1985 to STC International Computers Ltd and on 30-11-1990 to ICL Plc. The ultimate holding company is Fujitsu Ltd (Japan).
64.	Imperial Chemical Industries		Co Ltd, United Alkali Ltd, British Dyestuffs Corporation and Nobel Industries Ltd. In June 1993, the bioscience operations (Zeneca) were demerged.
65.	Imperial Group		Became a subsidiary of Hanson Trust in 1985.
66.	Inchcape PLC	Transport - Manufacturing & Distribution	The company was re-registered in July 1981 as a Plc under The Companies Act, 1980.
67.	International Thompson		Foreign Holding (Canadian) Organiation
68.	Isosceles PLC	Food Wholesaling & Retailing	Re-registered as a Public Limited Company In April 1989. The company's name changed in September 1988 from BMWS 90 Ltd to Isosceles Ltd. On 30-04-1994, the principle wholly-owned subsidiary undertakings of Isosceles Plc Changed their names.
69.	Johnson Mathey	Gold, Silver and Refiners, etc	The company was re-registered in 1981 as a Public Limited Company under The Companies Act, 1980.
70.	Kingsfisher PLC	Stores	Incorporate on 16-09-1982. The name changed on 12-11-1982 from Paternoser Stones Plc to Woolworth Plc (now Woolworth Plc) and on 19-10-89 to Kingsfisher Plc.
71.	Kwik Save Group PLC	Food Wholesaling & Retailing	The name changed on 03-07-1970 from Value Foods Ltd to Kwik Save Discount Group Plc and on 29-01-1986 to Kwik Save Group Plc.
72.	Ladbroke Group PLC	Hotels & Leisure	Re-registered in 1982 as a Public Limited Company under he Companies Act, 1980.
73.	Lewis [John] Partnership PLC	Stores	Re-registered in 1982 as a Plc under The Companies Act 1980.
74.	Lex Service PLC	Transport - Manufacturing & Distribution	The name changed on 19-12-69 from Lex Garages Ltd to Lex Service Group Ltd and on 06-05-1982 to Lex Services Plc.
75.	Littlewoods Organization PLC (The)	Stores	The company was re-registered in 1982 as a Plc under The Companies Act, 1980.
76.	Lonrho PLC	Conglomerates	Re-registered in 1982 as a Public Limited Company under The companies Act, 1980.
77.	Lucas Industries PLC	Engineering - General	The company was re-registered in 1982 as a Plc under The Companies Act, 1980.
78.	Manpower PLC	Staff Recruitment Services	

	COMPANY	INDUSTRY	Company Profile
79.	Marks & Spencer PLC	Stores	Re-registered in 1981 as a Plc under The Companies Act, 1980.
80.	Mitsubishi Corporation (UK) Ltd	Commodities Trading	Ltd
81.	Mitsui & Co UK PLC	Commodities Trading	The ultimate holding company is Mitsui & Co Ltd (Japan).
82.	National Power PLC	Electricity	Incorporated on 01-04-1989. In March 1991, 1,274,684,350 Ord shares of 50p were offered for sale at 175p per share (100p on application and 75p payable by 04-02-1992).
83.	NFC PLC	Transport	Incorporated on 27-11-1981 as a Public Limited Company under the Companies Act, 1980. The name changed on 01-01-1989 from National Freight Consortium Plc to NFC Plc.
84.	Northern Foods PLC	Food Manufacturing	Re-registered in 1982 as a Plc under The Companies Act, 1980.
85.	Nuclear Electric PLC	Electricity	
86.	Peninsular and Oriental Steam Navigation Co. (The) PLC	Transport Services	Incorporate in 1840 by Royal Charter
87.	Phibro Salmon		Foreign Holding (USA)
88.	Piklington PLC	Other Industrial Materials & Products	The name changed on 10-08-1987 from Pilkington Brothers Plc to Pilkington Plc.
89.	Plessey Company PLC (The)		A subsidiary of GEC Siemens Plc (German Holding). Registered as a private company on 14-02-1925 as Plessey Co Ltd; converted into a public company in March 1937 and re-registered as a Plc under The Companies Act, 1980. In September 1989, GEC Siemens Plc acquired the company by 76% of its Ordinary shares.
90.	Post Office (The)	Communications	
91.	PowerGen (Plc)	Electricity	Incorporated in 1989. The name changed from the Power Generation Company Plc to PowerGen Plc.
92.	Rowntree Mackintash Ltd		Ltd
93.	Racal Electronics PLC	Radio Communication, Electronic Equipment	Re-registered in 1982 as a Plc under The Companies Act, 1980.
94.	Rank Hovis McDoughall PLC		Re-registered in 1982 as a Plc under the Companies Act 1980. The name changed in February 1962 from Ranks Ltd to Ranks Hovis McDougall Ltd. On 29-10-1992, Tomkins Plc announced an offer for the capital of the company; this offer became unconditional as to acceptances on 07-12-1992. On 31-03-1993, pursuant to section 429 of the companies Act 1985, Tomkins Plc became the owner of the entire share capital of the company.
95.	Rank Organisation (The) PLC	Hotels & Leisure	Re-registered in 1982 as a Plc under The Companies Act, 1980.
96.	Rank Xerox Ltd	Electronics	Ltd
97.	Reckitt & Colman PLC	Health & Household	Holdings Ltd to Reckitt & Colman Ltd.

COMPANY	INDUSTRY	Company Profile
98. Reed International PLC	Paper, packaging, printing	The name changed on 03-08-1970 from Reed Group Ltd to Reed International Ltd. The company was re-registered in & publishing has agreed to equalisation agreements so that an Elsevier share will have substantially equivalent economic benefits to 0.769 Reed shares.
99. Redland PLC	Building Materials & Services	Re-registered in 1981 as a Plc under The Companies Act, 1980.
100. RMC Group PLC	Building Materials & Services	Re-registered in 1981 as a Plc under The Companies Act, 1980.
101. Rolls-Royce PLC	Aerospace	Re-registered in 1986 as a Plc under The Companies Act 1985.
102. Rothmans International PLC		Foreign (Swiss) Holding
103. Rover Group Ltd		Ltd
104. Rowntree Mackintas Ltd		Ltd
105. RTZ Corporation PLC (The)	Mines	The name changed on 01-08-1987 from The Rio Tinto-zinc Corporation Plc to The RTZ Corporation Plc. The company was formed to effect the merger of Rio Tinto Co Ltd and Consolidated Zinc Corpn Ltd. In December 1995, agreements were effected for the unification of the company and CRA Ltd (Austrailia), formerly Conzinc Riotinto of Australi Ltd, under dual listing company structure.
106. Saatchi & Saatchi Company PLC	Media	Registered in England and Wales on 11-07-1977 with the name Antholin No. Six Ltd, adopted the current title on 26-09-1977. Re-registered on 22-02-1982 as a Plc under The Companies Act 1980.
107. Sainsbury (J) PLC	Food Wholesaling & Retailing	Re-registered in 1982 as a Plc under The Companies Act, 1980. The company's name was changed in June 1955 from J. Sears & Co (True- Form Boot Co) Ltd to Sears Holdings Ltd and 01-08-1985 to Sears Plc.
108. Sears PLC	Stores	
109. Shell (Transport and Trading Co. PLC)	Oil, Gas & Nuclear Fuels	Re-registered in 1982 as a Plc under The Companies Act, 1980.
110. Smith [W H] Group PLC	Stores	Name changed on 01-01-1988 from W. H. Smith & Son (Holding) Plc to W. H. Smith Plc.
111. SmithKlien Beecham PLC	Health & Household	Incorporated on 24-01-1989 as a Public Limited Company. The company's name changed on 07-04-1989 from Goldslot Plc to SmithKline Beecham Plc. A Scheme of Arrangement for the merger of Beecham group Plc and SmithKline Beckman Corporation, excluding Allergan Inc and Beckman Instruments Inc and their respective subsidiaries, became effective in July 1989
112. STC PLC	Telecommunications, Electronics	A subsidiary of Northern Telecom Ltd through Northern Telecom Plc. Registered in 1910 as Western Electric Co Ltd; name changed in 1925 to Standard Telephones & Cables Ltd. Converted into public company in 1979 and re-registered as public limited company under the Companies Act, 1980. Name changed to STC Plc on 17-06-1985. The company was acquired by Northern Telecom Ltd on 08-12-1990. The name changed to Northern Telecom Europe Ltd on 27-03-1991.
113. Sumitomo Corporation (UK) Plc	Commodities Trading	The ultimate Holding is Sumitomo Corporation (Japan)

COMPANY	INDUSTRY	Company Profile
114. Swire (John) & Sons Ltd	Transport Services	Ltd
115. Tale & Lyle Plc	Food Manufacturing	Re-registered in 1981 as a Public Limited Company under The Companies Act, 1980.
116. Tarmac PLC	Contracting, Construction	Re-registered in 1982 as a Public Limited Company under The Companies Act, 1980.
117. Tesco PLC	Store	The company's name changed from Tesco Stores (Holdings) Plc to Tesco Plc on 25-08-1983.
118. Texaco Ltd	Oil, Gas & Nuclear Fuels	Ltd
119. THORN EMI PLC	Hotel & Leisure	The name changed from The Electric Lamp Service Co Ltd to Thorn Electrical Industries Ltd in November 1936 and to THORN EMI Ltd on 03-03-1980.
120. Tomkins PLC	Engineering - General	The name changed on 25-02-1988 from F. H. Tomkins Plc to Tomkins Plc.
121. Trafalgar House PLC	Property	Re-registered in 1982 as a Plc under The Companies Act, 1980. Named changed on 31-01-1977 from Trafalgar House Investments Ltd to Trafalgar House Ltd. In May 1989, the group demerged its oil and gas interests in Hardy Oil & Gas Plc on the basis of one share of Hardy for every 10 shares in the company. In July 1991, the company acquired Davy corporation Plc. In October 1992, Hongkong Land Holdings Ltd acquired 14.9% of the Ord Capital.
122. Trientrol PLC		Foreign Holding. A subsidiary of Atlantic Richfield Co. (An American company). Registered on 08-02-1917 as trinidad Central Oilfileds Ltd; name changed on 02-07-1962 to Trinidad Canadian Oilfields Ltd, and to Tricentrol Ltd on 01-01-1972. Re-Registered on 01-02-1982 as a Plc under companies Act, 1980.
123. Ultramar PLC		Registered on 30-05-1935 as Ultramar Exploration Company Ltd; name changed on 12-04-1940 to Ultramar Plc. The company was acquired by Lasmo in December 1991.
124. Unigate PLC		Incorporated on 20-02-1959 as a Private Company; Converted on 03-04-1959 into a Public company; Re-registered in 1982 as Limited Company under The Companies Act, 1980.
125. United Biscuits (Holdings) PLC	Food Manufacturing	Re-registered on 1981 as a Plc under The Companies Act, 1980.
126. Unliever PLC	Foods Manufacturing	Re-registered on 1981 as a Plc under The Companies Act, 1980.
127. Vauxhall Motors Ltd	Transport-Manufg & Distn	Ltd
128. Wellcome PLC	Health & Household	Re-registered in 1986 as a Plc Under The Companies Act 1985. The name changed on 02-01-1986 from Wellcome Pharmaceuticals Ltd to Wellcome Plc. In February 1986, 210,800,000 Ord shares of 25p were offered for sale at 120p per share. In January 1995, an offer was made for the whole of the issued share capital of the company by Glaxo Plc, on the basis of ,722 cash and 47 new Glaxo shares for every 100 ADS held in the company; acceptance to be received by 08-03-95.
129. Whitbread PLC	Brewers & Distillers	Incorporated in 1989. The company's name changed on 01-03-1991 from Whitbread and Company Plc to Whitbread Plc.
130. Wolseley PLC	Building Material & Services	The name change in 1995 from Wolsely Sheep Shearing Machine Company Ltd to Wolseley Engineering Ltd, on 31-07-1958 to Wolseley-Hughes Ltd and in April 1986 to Wolseley Plc.
131. WPP Group PLC	Business Services	The name changed in February 1986 from Wire & Plastic Products Plc to WPP Group Plc.

COMPANY	INDUSTRY	Company Profile
132. Zeneca PLC	Health & Household	Incorporated on 17-06-1992. The name was changed 16-02-1993 from Hacplimo Plc to Zeneca Group Plc. The company was formed Following an internal reorganization of Imperial Chemical Industries Plc and its subsidiaries involving the separation of its bioscience Activities from its other chemical operations (with effect from 01-01-93) by way of the transfer of assets and liabilities. Under the Demerger ICI Plc Transferred its shares in Zeneca Ltd to the company in exchange and in consideration for which the company issued Demerger shares to ICI shareholders on the basis of one Zeneca Demerger share for every ICI ordinary share held at Demerger Record date.

APPENDIX 4B

COMPANY NAME	1985	1990	1995	A
1. Aegis Group Plc	Wight Collins Rutherford Plc (N/A)	Y	Y	N/S
2. Allied Domecq Plc	Allied Lyons Plc	Allied Lyons Plc	Y	S
3. AMEC PLC	Y	Y	Y	S
4. Argyll Group Plc	Y	Y	Y	N/S
5. Arjo Wiggins Appelton Plc	Peakgilt Plc (N/A)	Wigins Teape Appelton Plc	Y	N/S
6. Asda Group Plc	Asda-MFI	Y	Y	S
7. Associated British Foods Plc	-	-	Y	S
8. BAT Industries Plc	Y	Y	Y	S
9. Bass Plc	Y	Y	Y	S
10. Beazer Plc	C. H. Beazer (Holdings) Plc	Y	Y	S
11. Berisford Plc	Ltd	Berisford International Plc	Y	S
12. BET Plc	Y	Y	Y	S
13. BICC Plc	Y	Y	Y	S
14. BOC Group Plc	Y	Y	Y	S
15. Booker Plc	Ltd	Y	Y	S
16. Boots Company Plc	Y	Y	Y	S
17. British Petroleum Plc	Y	Y	Y	S
18. British Aerospace Plc	Y	Y	Y	S
19. British Airway Plc	Y	Y	Y	S
20. British Gas Plc	-	Y	Y	S
21. British Steel Plc	-	Y	Y	S
22. British Telecommunication Plc	Y	Y	Y	S
23. BTR Plc	Y	Y	Y	S
24. Bunzel	Y	Y	Y	S
25. Burton Group Plc	Y	Y	Y	S
26. Burmah Castrol Group Plc	Y	Y	Y	S
27. Cable & Wireless Plc	Y	Y	Y	S
28. Cadbury Schweppes Plc	Y	Y	Y	S
29. Coats Viyella Plc	Vantona Viyella Plc (N/A)	Y	Y	N/S
30. Cortlauds Plc	-	Y	Y	S
31. Dalgaty Plc	Y	Y	Y	S
32. Dee Corporation Plc	Y (N/A)	Gateway Corporation Plc (N/A)	-	N/S

COMPANY NAME	1985	1990	1995	A
33. Dixon Group Plc	Y	Y	Y	S
34. Forte Plc	Trust House Forte Plc	Trust House Forte Plc	Y	S
35. General Electric Company Plc	Y	Y	Y	S
36. GKN Plc	Ltd	Y	Y	S
37. Glaxo Holdings Plc	Y	Y	Y	S
38. Granada Group Plc	Y	Y	Y	S
39. Grand Metropolitan Plc	Y	Y	Y	S
40. Great Universal Stores Plc	Y	Y	Y	S
41. Guinness Plc	Y	Y	Y	S
42. Hawker Siddleley Group Plc	Y	Y	-	S
43. Hanson Plc	Ltd	Y	Y	S
44. Harrisons & Crossfield Plc	Y	Y	Y	S
45. Hillsdown Holdings Plc	Y	Y	Y	S
46. ICI Plc	Y	Y	Y	S
47. Inchape Plc	Y	Y	Y	S
48. Isosceles Plc	Ltd	Y	Y	N/S
49. Johnson Mathey Plc	Y	Y	Y	S
50. Kingfisher Plc	Woolworth Plc	Y	Y	S
51. Kwik Save Group Plc	Kwik Save Discount Plc	Y	Y	S
52. Ladbroke Group Plc	Y	Y	Y	S
53. Lex Services Plc	Y	Y	Y	S
54. Littlewood Organizaion Plc	Y (N/A)	Y (N/A)	Y	N/S
55. Lonhro Plc	Y	Y	Y	S
56. Lucas Industries Plc	Y	Y	Y	S
57. Marks and Spencer Plc	Y	Y	Y	S
58. National Power Plc	-	Y	Y	S
59. NFC Plc	Y	Y	Y	S
60. Northern Foods Plc	Y	Y	Y	S
61. Nuclear Electric Plc				N/S
62. Peninsular and Oriental Steam Navigation Co (The) Plc	Y	Y	Y	S
63. Pilkington Plc	Pilkington Brothers Plc	Y	Y	S
64. Plessey Company Plc	Y (N/A)	-	-	N/S
65. PowerGen Plc	-	Y	Y	S
66. Racal Electronics Plc	Y	Y	Y	S

COMPANY NAME	1985	1990	1995	A
67. Rank Hovis McDoughall Plc	Y	Y	Acquired by Tomkins Plc	S
68. Rank Organization Plc	Y	Y	Y	S
69. Reckitt & Coleman Plc	Y	Y	Y	S
70. Reed International Plc	Y	Y	Y	S
71. Redland Plc	Y	Y	Y	S
72. RMC Group Plc	Y	Y	Y	S
73. Rolls-Royce Plc	Y	Y	Y	S
74. RTZ Plc	The Rio Tinto-Zinc Corporation Plc	Y	Y	S
75. Saatchi & Saatchi Plc	Y (N/A)	Y	Y	N/S
76. Sainsbury Plc	Y	Y	Y	S
77. Sears Plc	Y	Y	Y	S
78. Shell (Transport and Trading Co.) Plc	Y	Y	Y	S
79. W. H. Smith Plc	W. H. Smith & Son Holding Plc	Y (N/A)	Y	N/S
80. SmithKline Beecham Plc	-	Goldslot Plc (N/A)	Y	N/S
81. STC Plc	Y (N/A)	-	-	N/S
82. Tate & Lyle Plc	Y	Y	Y	S
83. Tarmac Plc	Y	Y	Y	S
84. Tesco Plc	Y	Y	Y	S
85. THORN EMI Plc	Y	Y	Y	N/S
86. Tomkins Plc	F. H. Tomkins Plc	Y (N/A)	Y	N/S
87. Trafalgar House Plc	Y	Y	Y	S
88. Tricentrol Plc	Y (N/A)	Y (N/A)	-	N/S
89. Ultramar Plc	Y	Y	Acquired by Lasmo Plc in 1991	S
90. Unigate Plc	Y	Y	Y	S
91. United Biscuits Holdings Plc	Y	Y	Y	S
92. Unilever Plc	Y	Y	Y	S
93. Wellcome Plc	-	Y	-	S
94. Whitbread Plc	Whitbraed and Company Plc	Y	Y	S
95. Wolseley Plc	Ltd	Y	Y	S
96. WPP Group Plc	Wires & Plastic Products Plc	Y	Y	S
97. Zeneca Plc	-	-	Y	S

Note: In column A, S stands for 'Selected for the Sample', N/S stands for not selected for the Sample'.
N/A stands for annual reports not available.

APPENDIX 4C

FIGURE 4C.1 AGGREGATE PREFERENCE CAPITAL

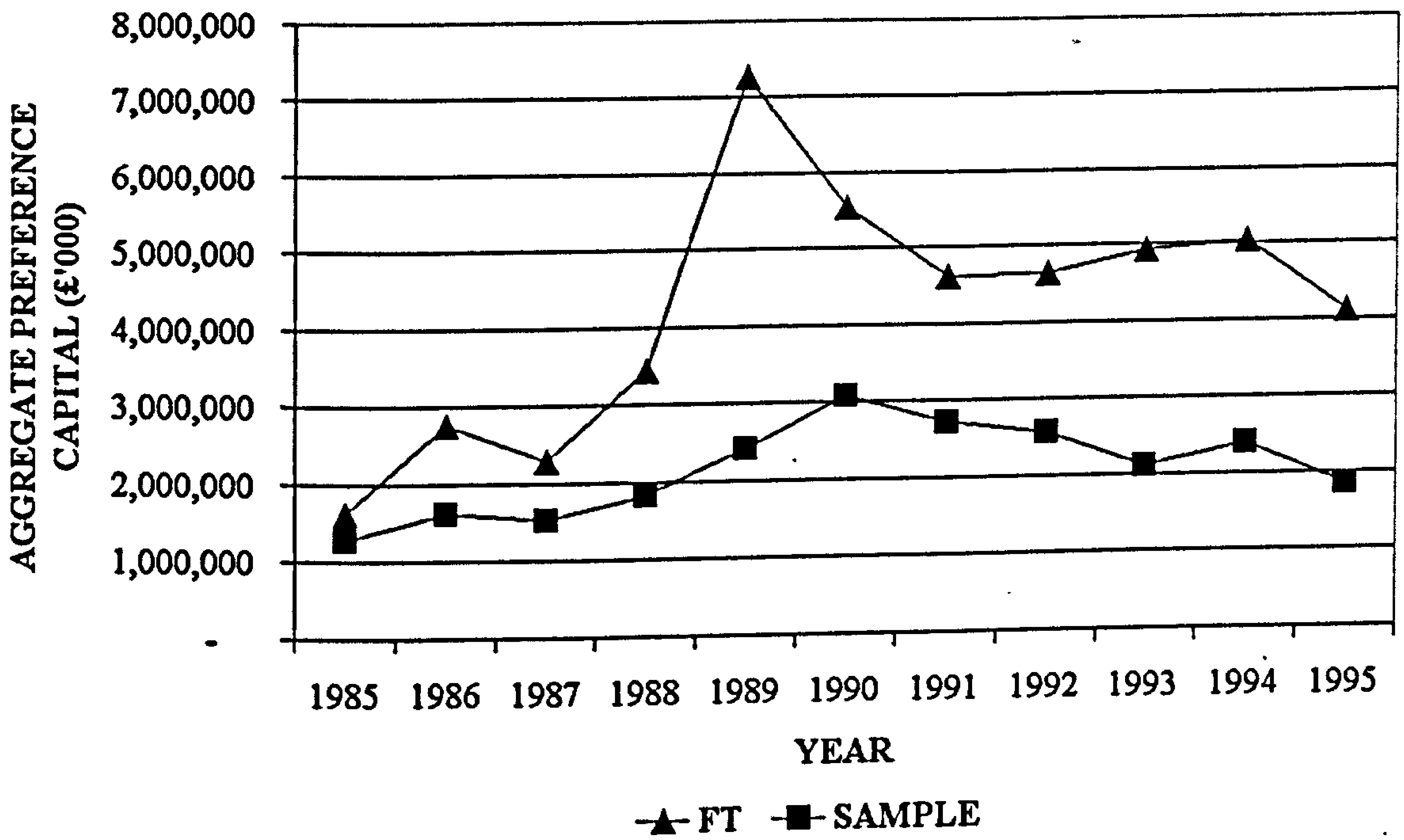


FIGURE 4C.2 AVERAGE PREFERENCE CAPITAL

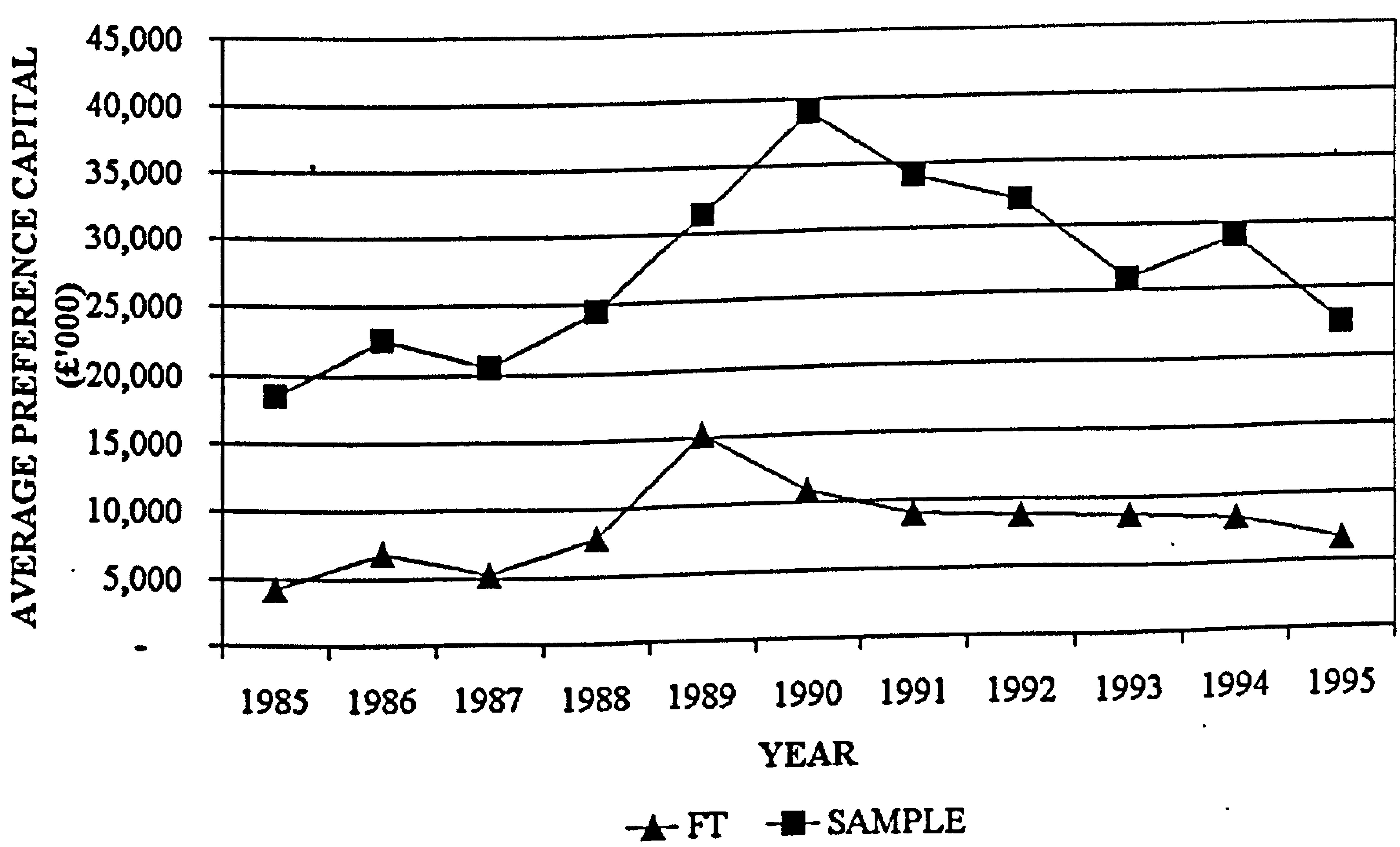


FIGURE 4C.3 AGGREGATE CAPITAL EMPLOYED

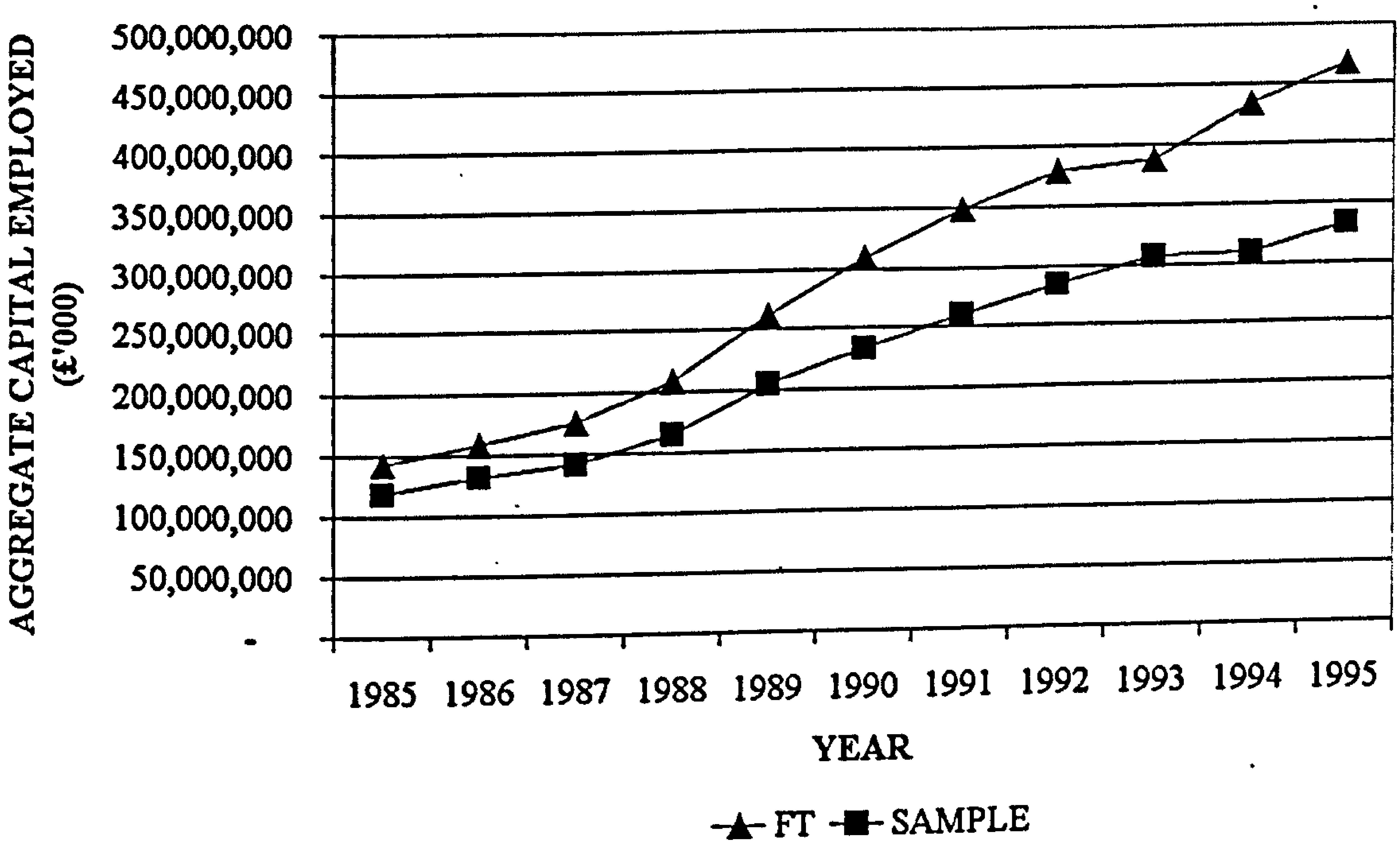


FIGURE 4C.4 AVERAGE CAPITAL EMPLOYED

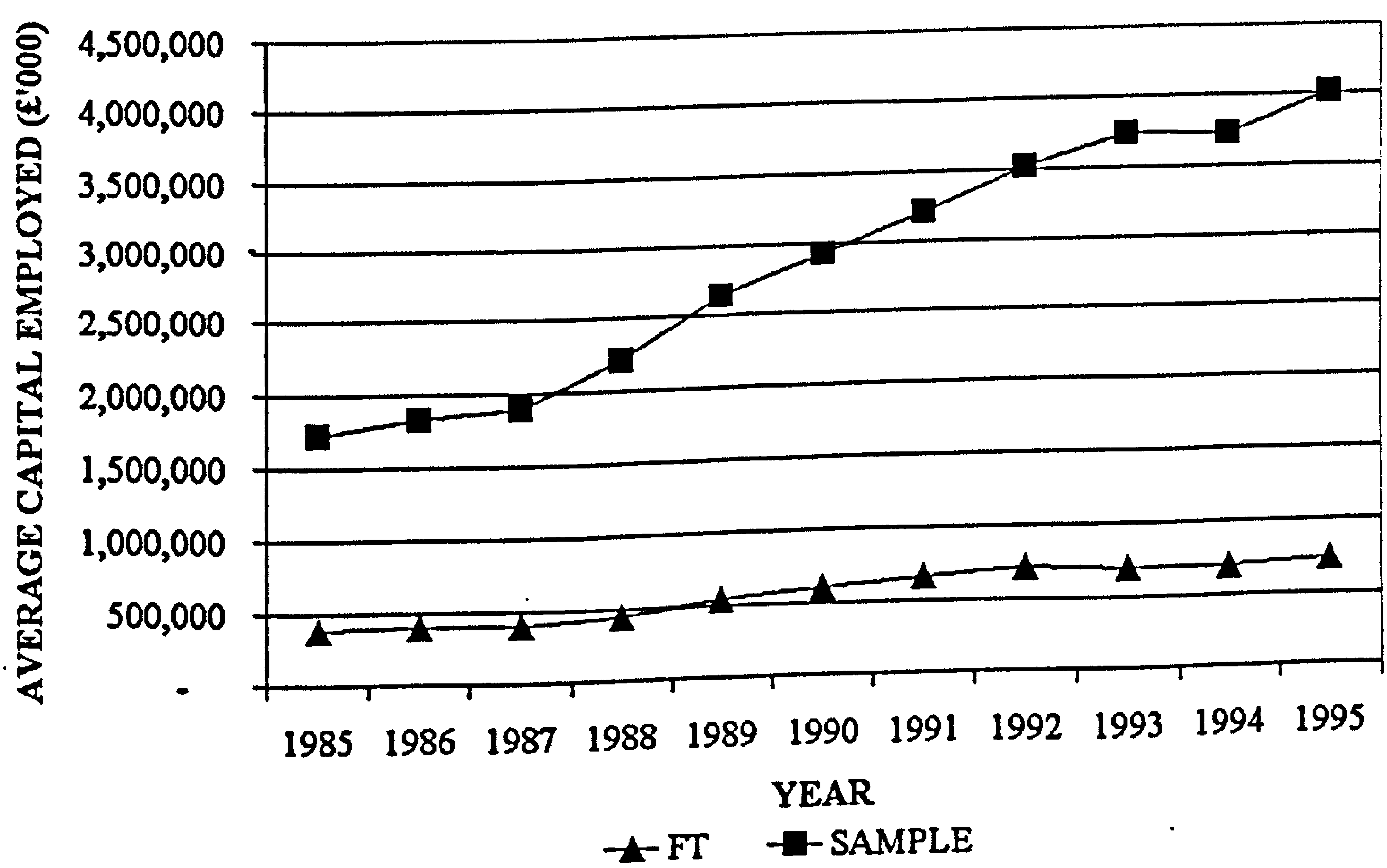


FIGURE 4C.5 AGGREGATE LOAN CAPITAL

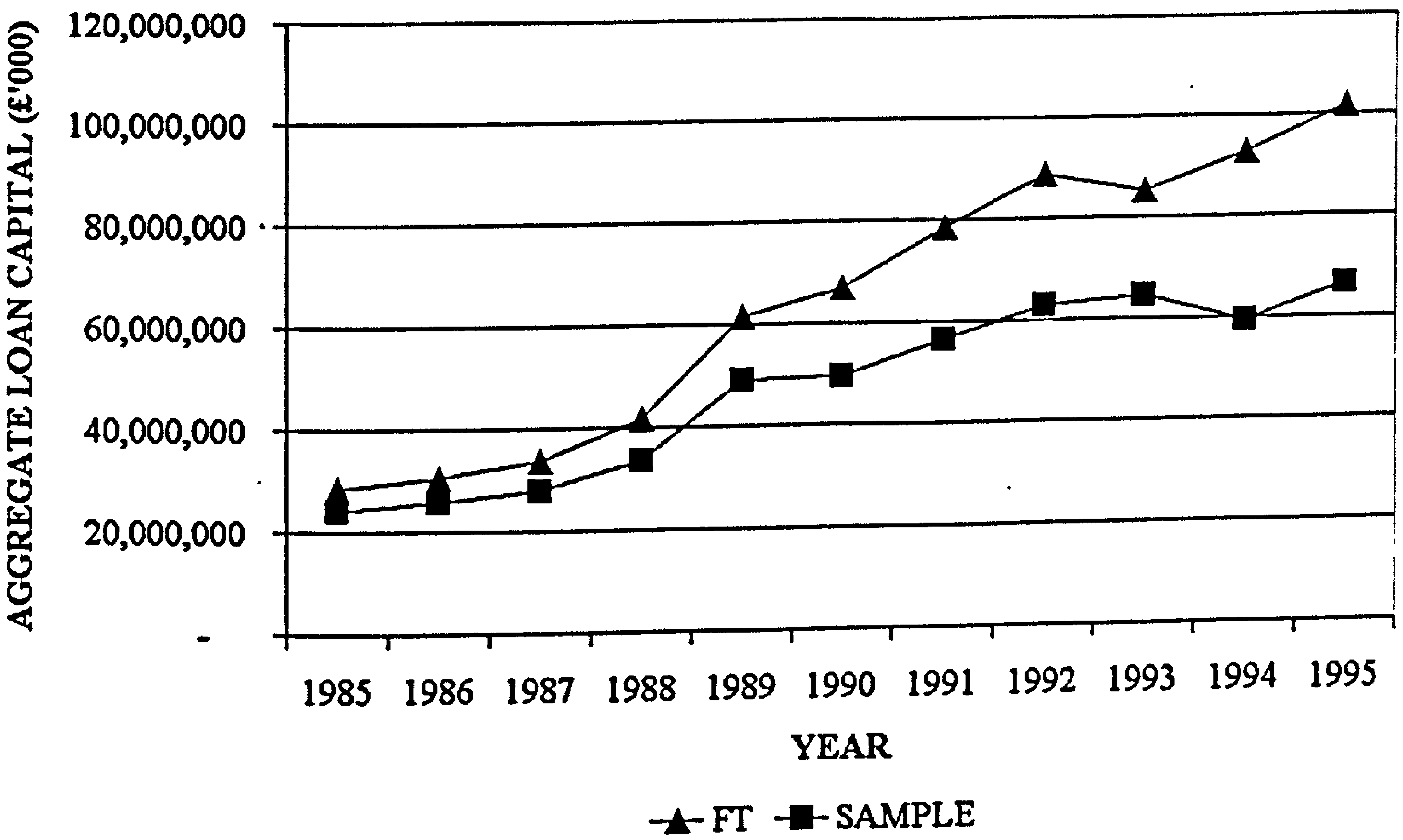


FIGURE 4C.6 AVERAGE LOAN CAPITAL

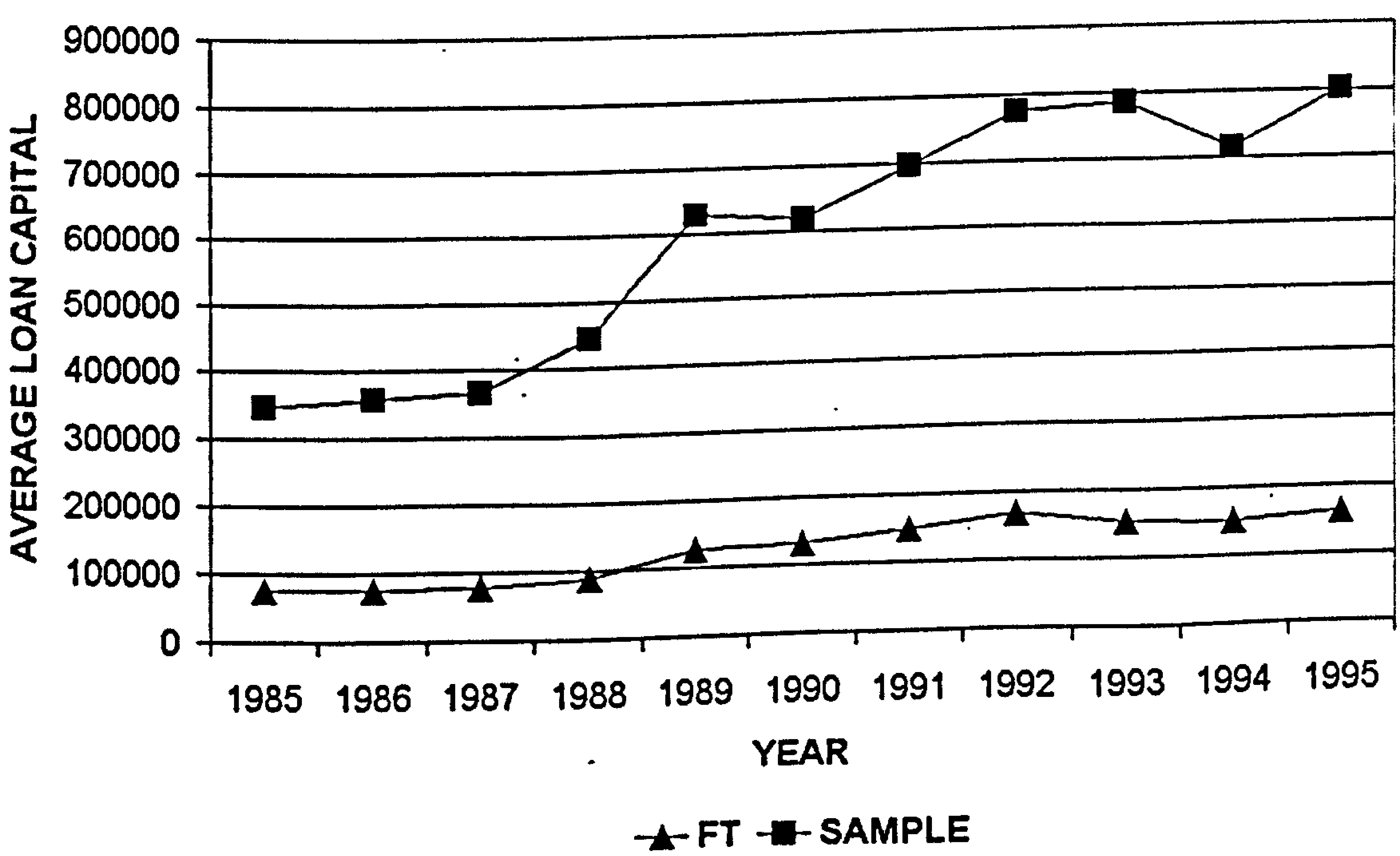


FIGURE 4C.7 AGGREGATE GEARING RATIO

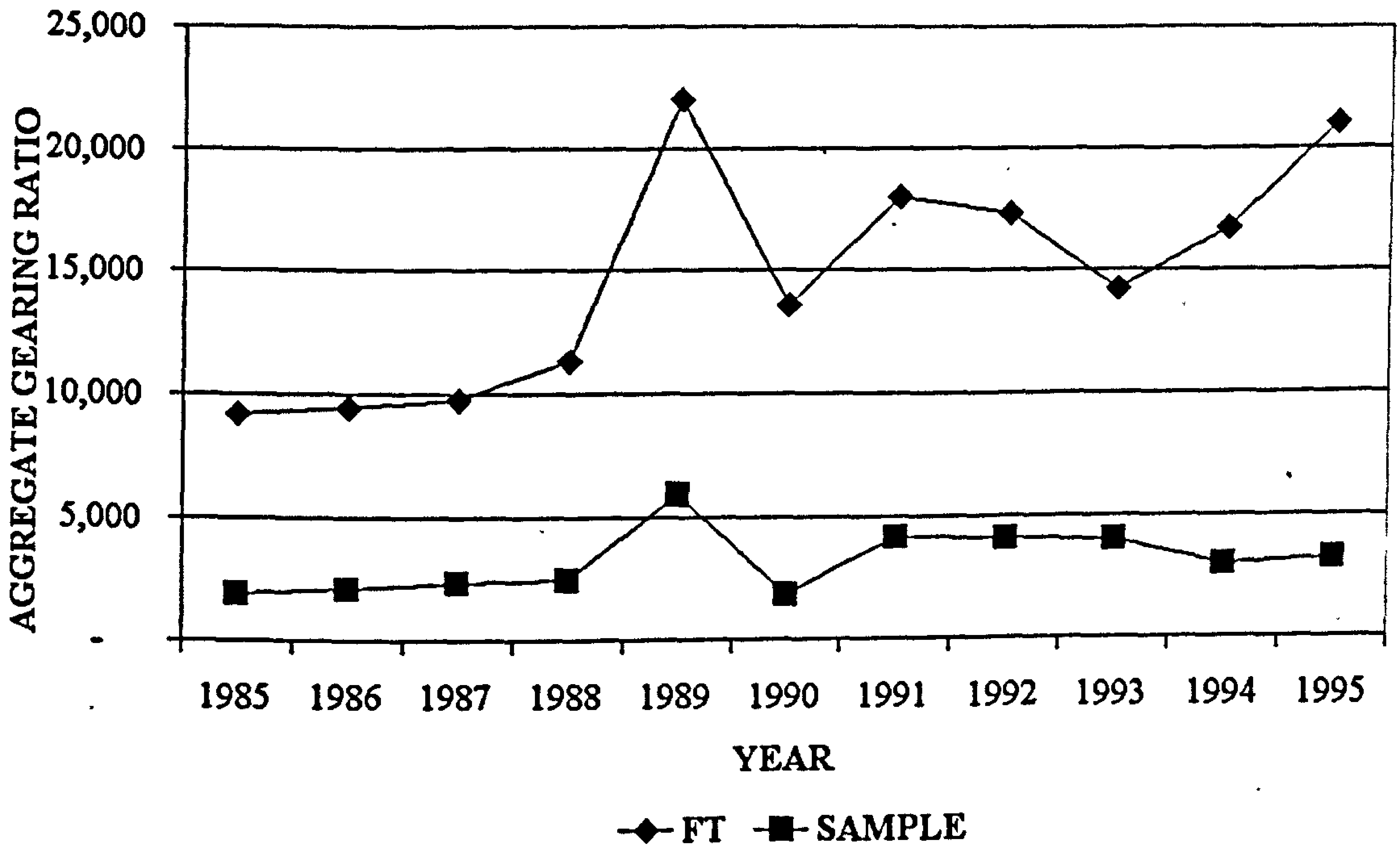


FIGURE 4C.8 AVERAGE GEARING RATIO

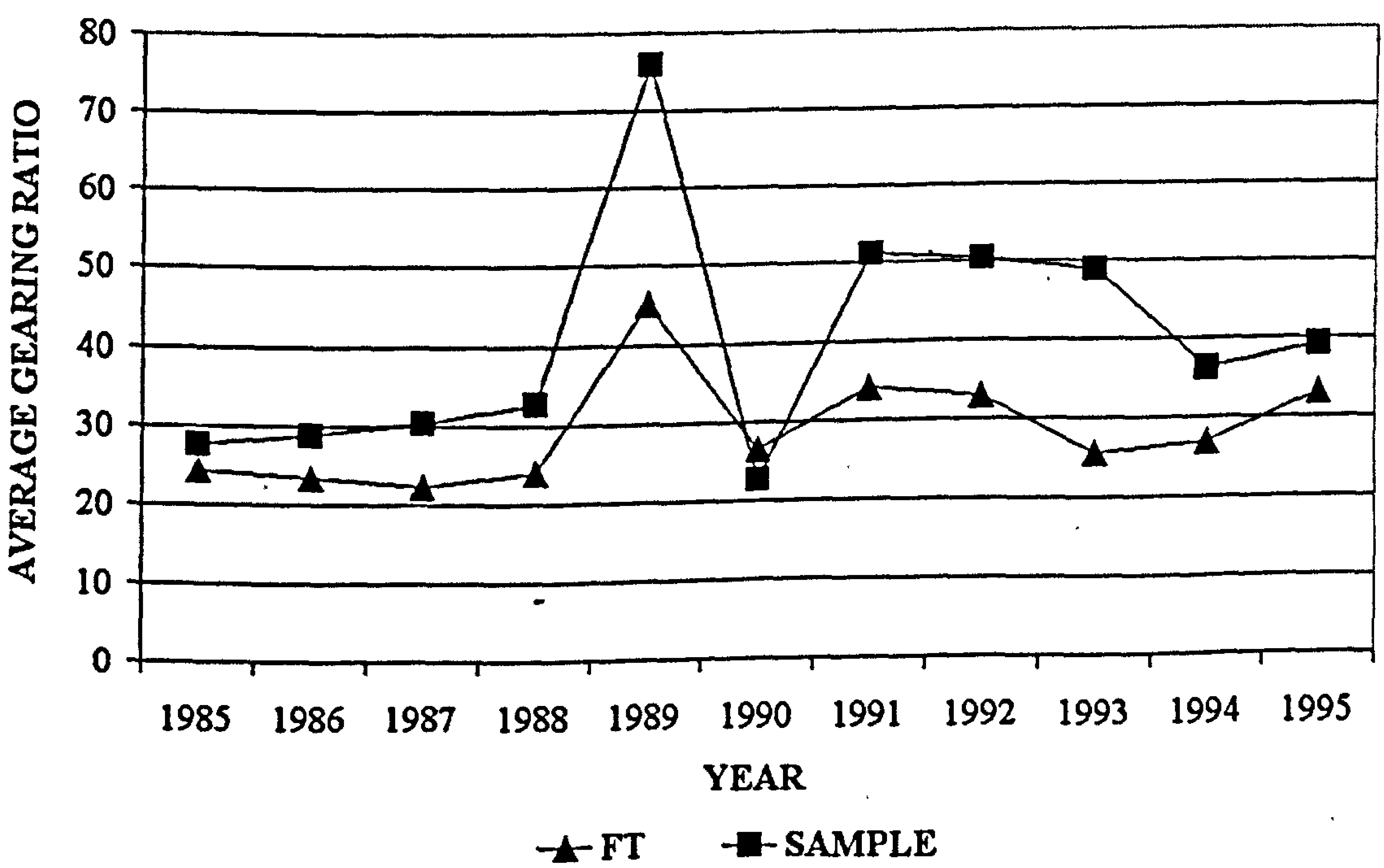


FIGURE 4C.9 AGGREGATE BORROWING RATIO

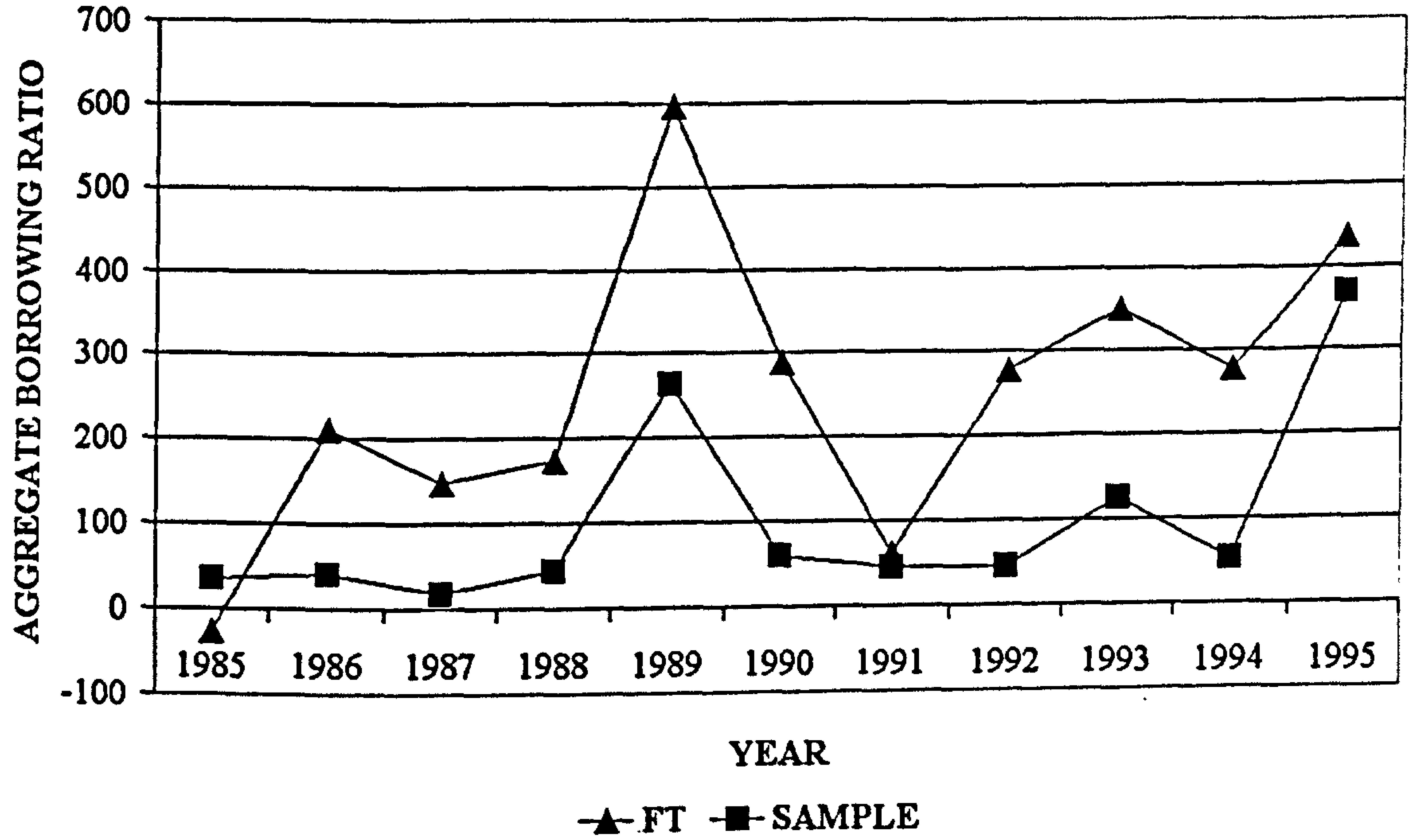
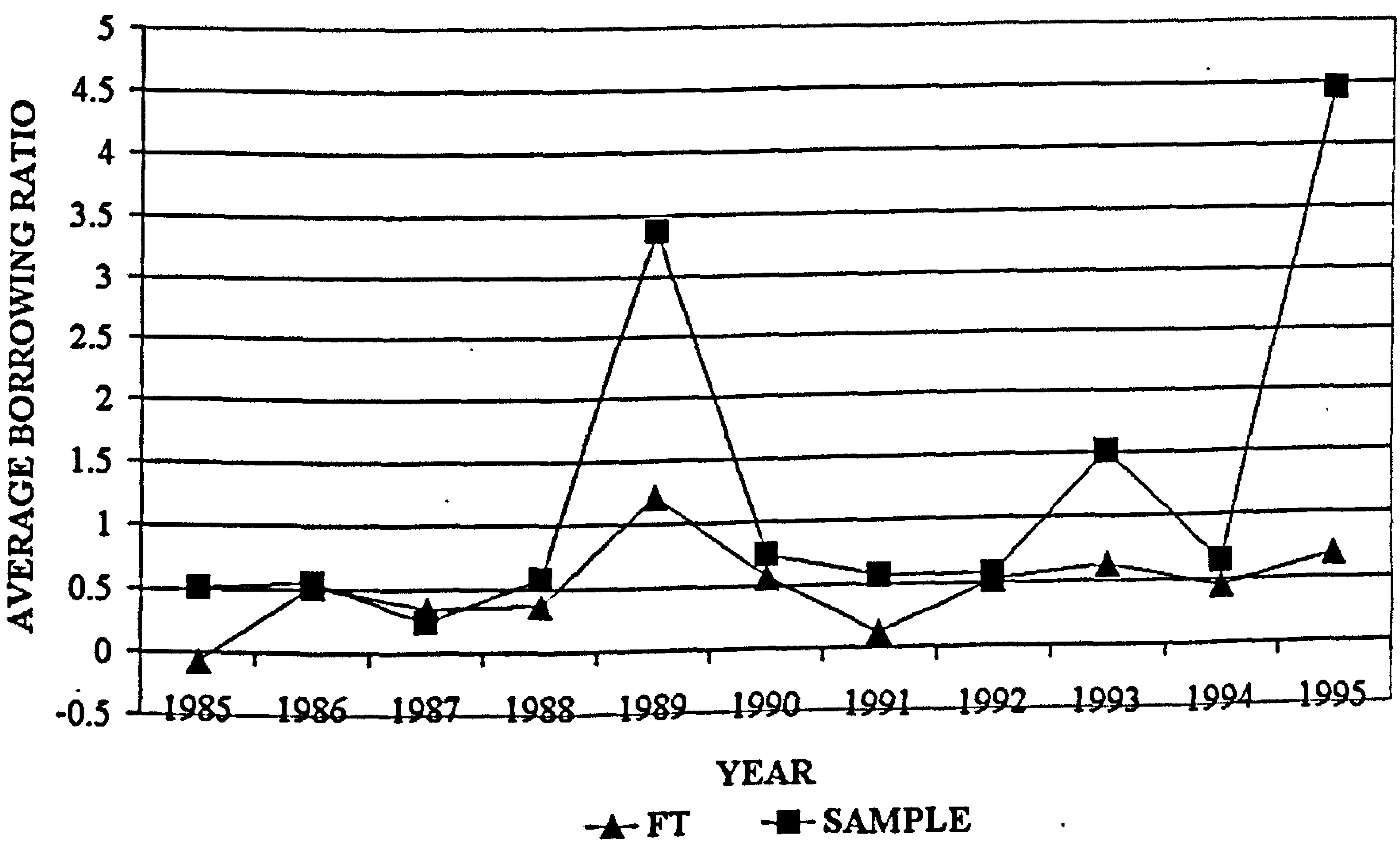


FIGURE 4C.10 AVERAGE BORROWING RATIO



APPENDIX 4D

Non-respondents

1. Associated British Foods Plc
2. Berisford Plc
3. BET Plc
4. BICC Plc
5. British Aerospace Plc
6. British Airways Plc
7. British Peteroleum Plc
8. British Telecome Plc
9. Burton Plc
10. Cadbury Schweppes Plc
11. Courtlauds Textiles Plc
12. Guiness Plc
13. Harrisons & Crossfield Plc
14. Imperial Chemical Industries Plc
15. Inchape Plc
16. J Sainsbury Plc
17. Ladbrokes Group Plc
18. LEX Services Plc
19. LONRHO Plc
20. Lucas Industries Plc
21. P & O
22. Rolls-Royce Plc
23. Sears Plc
24. Tate & Lyle Plc
25. The British Petroleum Plc
26. The Shell Transport & Trading Co. Plc
27. Unigate Plc
28. Unilever Plc
29. United Biscuits Plc
30. Wolseley Plc
31. Zeneca Plc

No Response

1. Beazer Group Plc
2. BTR Plc
3. Bunzel Plc
4. Cable and Wireless Plc
5. Hanson Plc
6. Johnson Matthey Plc
7. National Power Plc
8. Northern Foods Plc
9. Powergen Plc
10. Racal Electronic Plc
11. Reckitt & Colman Plc
12. The BOC Group Plc
13. Whitbread Plc

Notes

'Non-response' list presents all those companies who responded that they would not co-operate with the survey.
'No response' list present the names of all those companies who neither said they would or would not co-operate.
The names of the respondents could not be included as many of the companies strictly asked for confidentiality and did not want their names to be revealed.

APPENDIX 4E

Letter to company secretaries

Date

Dear Name,

I am writing to ask for your assistance in a research project I am directing at the Business School on the disclosure of non-financial information by major UK companies. The project is investigating one of the most important changes in corporate behaviour in recent years, namely the increasing concern of companies and employees with effective communication and consultation between companies and their major stakeholder groups. We wish to analyse the nature and degree of the change and to see if it is related in any way to company performance.

All that we ask is that you, as employee representative, give up a few minutes of your time to complete the enclosed brief questionnaire. All replies will be treated in confidence and no individual company details will be disclosed. If you wish, we will also send a report on the findings on completion of the study.

May I take the opportunity of thanking you in advance for your support in this matter.

Yours sincerely,

Communication and Consultation with Stakeholder Groups

Survey Questionnaire

Project On The Disclosure of Non-Financial Information by UK Companies

MIDDLESEX UNIVERSITY
BUSINESS SCHOOL

A. Stakeholder Groups

Theoretically, there are five groups of stakeholders. In practice, however, stakeholder groups associated to a particular company and the importance attached to each stakeholder group varies depending on the business operations of a company.

- Could you identify how major the following stakeholder groups are to your company. *(Please tick as appropriate)*

	Very Major	Major	Somewhat Major	Not very Major	Not at all Major
• Institutional Shareholders	☐	☐	☐	☐	☐
• Employees	☐	☐	☐	☐	☐
• Customers	☐	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐	☐
• Public	☐	☐	☐	☐	☐

- Do you have any specific procedure in determining your major stakeholder groups?

Yes ☐ **No** ☐

B. Methods of Communication

- Which one of the following methods are used in your company to communicate with each of your stakeholder groups? *(Please tick as appropriate)*

	Institutional Shareholders 1	Employees 2	Suppliers 3	Customers 4	Public 5
Face-to-face methods:					
• Group Meetings (Apart from the annual general meeting)	☐	☐	☐	☐	☐
• Cascade networks	☐	☐	☐	☐	☐
• Large-scale meetings	☐	☐	☐	☐	☐
Written Methods:					
• Company Handbooks	☐	☐	☐	☐	☐
• Information notes to stakeholder representative	☐	☐	☐	☐	☐
• House journals	☐	☐	☐	☐	☐
• Newsletters	☐	☐	☐	☐	☐
• Departmental Bulletins	☐	☐	☐	☐	☐
• Notices	☐	☐	☐	☐	☐
• Individual letters to stakeholder • group representatives (to give • information of major importance • accurately and simultaneously)	☐	☐	☐	☐	☐
Other Methods:					
Information points	☐	☐	☐	☐	☐
Audio-visual aids	☐	☐	☐	☐	☐
Electronic mail	☐	☐	☐	☐	☐

C. Different Types of information communicated:

- Please consider DO NOT consider ANNUAL REPORTS since they are regarded as publicly available information.
- Please consider the following information items in regard to each stakeholder group separately.
- Please do not tick if you think the information item is <u>irrelevant</u> to a particular stakeholder group.

	Shareholders 1	Employees 2	Suppliers 3	Customers 4
(i) Information about the organisation:				
• Work objectives and performance	☐	☐	☐	☐
• Operating and technical information	☐	☐	☐	☐
• Health and safety	☐	☐	☐	☐
• Information on personnel (Who the key positions are)	☐	☐	☐	☐
• Working conditions	☐	☐	☐	☐
• Supervision and management	☐	☐	☐	☐
• of different operational procedures				
• Administrative procedures	☐	☐	☐	☐
• Training and development	☐	☐	☐	☐
• Development in technology and methods	☐	☐	☐	☐
• Equal opportunities	☐	☐	☐	☐
• Social and welfare facilities	☐	☐	☐	☐
• to each stakeholder group				
(ii) Marketing Information:				
• Company Market Share	☐	☐	☐	☐
• Company Market Segment	☐	☐	☐	☐
• Mergers and Acquisitions	☐	☐	☐	☐
• Investment	☐	☐	☐	☐
• Details of products and services	☐	☐	☐	☐
• Future plans on developing products and services	☐	☐	☐	☐
• Future plans on other issues	☐	☐	☐	☐
• Research and development	☐	☐	☐	☐
• Environmental issues	☐	☐	☐	☐

D. Consultation/Two-way communication:

Communication with different stakeholder groups is important in allowing an organisation to know its stakeholders' needs and interests as well as having the opportunity to inform the stakeholders of the existing impediments in various areas.

(i) Dialogue Circles:

Each dialogue circle (sometimes called quality circles or focal groups) consists of a particular stakeholder groups' representatives. These representatives identify the areas in which improvements can be made. They then present proposals to the top management.

- Could you identify whether you have *any* quality circles for any of your stakeholders.

	Yes	No
• Institutional Shareholders	☐	☐
• Employees	☐	☐
• Customers	☐	☐
• Suppliers	☐	☐
• Public	☐	☐

<u>*If YES*</u>

- Could you indicate ***how often*** the meetings are held.

	Once a year	Twice a year	Four times a year	More
• Institutional Shareholders	☐	☐	☐	☐
• Employees	☐	☐	☐	☐
• Customers	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐
• Public	☐	☐	☐	☐

<u>*If NO*</u>

- Could you indicate ***how useful*** you think the dialogue circles would be to the overall management of your company.

	Not at all useful	Not very useful	Somewhat useful	Very useful
• Institutional Shareholders	☐	☐	☐	☐
• Employees	☐	☐	☐	☐
• Customers	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐
• Public	☐	☐	☐	☐

(ii) Training programmes :

Well-designed training courses are a useful way of giving staff factual information about their positions in the organisation. Training events enables the staff to have better communication skills when dealing with company❼s stakeholders.

- Do you have any training courses within your organisation? Yes ☐ No ☐

<u>*If YES*</u>

- How ***useful*** are the training courses in enabling your staff to have better communication skills when dealing with company stakeholders?

Not at all useful	Not very useful	Somewhat useful	Very useful
☐	☐	☐	☐

(iii) Joint consultation:

Joint consultation takes place between managers and stakeholders' representatives who come together on regular basis to discuss issues of mutual concern.

- Do you have any joint consultation arrangements for any of your stakeholder groups.

	Yes	No
• Institutional Shareholders	☐	☐
• Employees	☐	☐
• Customers	☐	☐
• Suppliers	☐	☐
• Public	☐	☐

If YES

- Could you indicate ***how often*** you consult your stakeholder groups?

	Once a year	Twice a year	Four times a year	More
• Institutional Shareholders	☐	☐	☐	☐
• Employees	☐	☐	☐	☐
• Customers	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐
• Public	☐	☐	☐	☐

If NO

- Could you indicate ***how useful*** you think consultation would be in finding out the views and interests of your stakeholders.

	Not at all useful	Not very useful	Somewhat useful	Very useful
• Institutional Shareholders	☐	☐	☐	☐
• Employees	☐	☐	☐	☐
• Customers	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐
• Public	☐	☐	☐	☐

(iv) Attitude Surveys:

Do you carry out any attitude surveys for any of your stakeholder groups.

	Yes	No
Institutional Shareholders	☐	☐
Employees	☐	☐
Customers	☐	☐
Suppliers	☐	☐
Public	☐	☐

If YES

- Could you indicate ***how often*** the attitude surveys are carried out?

	Once a year	Twice a year	Four times a year	More
• Institutional Shareholders	☐	☐	☐	☐
• Employees	☐	☐	☐	☐
• Customers	☐	☐	☐	☐
• Suppliers	☐	☐	☐	☐
• Public	☐	☐	☐	☐

(v) Suggestion Schemes:

- Do you have any suggestion schemes for any your stakeholder groups?

	Yes	No
• Institutional Shareholders	☐	☐
• Employees	☐	☐
• Customers	☐	☐
• Suppliers	☐	☐
• Public	☐	☐

Your co-operation in completing this questionnaire is very much appreciated

Please tick the box if you wish to receive a copy of the findings ☐

Company's Name ....

Please return to:

Professor J P Dunne,
Business School,
Middlesex University,
The Burroughs,
Hendon,
London, NW4 4BT

APPENDIX 4F

Letter to Institutional Investors

Date

Dear Name

I am writing to ask for your assistance in a research project I am directing at the Business School on the disclosure of non-financial information by major UK companies. The project is investigating one of the most important changes in corporate behaviour in recent years, namely the increasing concern of companies and institutional investor with effective communication and consultation between companies and their major stakeholder groups. I wish to analyse the nature and degree of the change and to see if it is related in any way to company performance.

All that we ask is that you, as an institutional investor, give up a few minutes of your time to complete the enclosed brief questionnaire. All replies will be treated in confidence and no individual company details will be disclosed without permission. We will also send a report on the findings on completion of the study, if you wish.

May I take the opportunity of thanking you in advance for your support in this matter.

Yours sincerely,

Name

Communication and Consultation with Institutional Investors

Survey Questionnaire

Project On The Disclosure of Non-Financial Information by UK Companies

MIDDLESEX UNIVERSITY
BUSINESS SCHOOL

A. Methods of Communication:

- Could you indicate:

1. Which one of the following methods of communication are commonly used by the public limited companies which you have major holdings in, i.e. more than 3%; and

2. Which of the following methods of communication are preferred by you.

PLEASE NOTE THAT THE FOLLOWING METHODS ARE <u>OTHER THAN</u> THE ANNUAL GENERAL MEETINGS

	Method used by company 1	Method Preferred by institutional investor 2
<u>Face-to-face methods:</u>		
• Group Meetings	☐	☐
• Cascade networks	☐	☐
• Large-scale meetings	☐	☐
• Inter-departmental briefings	☐	☐
<u>Written Methods:</u>		
• Company Handbooks	☐	☐
• Employees information notes/reports	☐	☐
• House journals	☐	☐
• Newsletters	☐	☐
• Departmental Bulletins	☐	☐
• Notices	☐	☐
• Individual letters to all employees	☐	☐
<u>Other Methods:</u>		
• Information points	☐	☐
• Audio-visual aids	☐	☐
• Electronic mail	☐	☐

- Could you specify if there are any other method/(s) of communication that either companies use or you prefer them to use.

1. ....

2. ....

3. ....

4. ....

5. ....

B. Different Types of Information Communicated :

- Could you indicate whether the following information items are provided to you by companies, ***if YES***, Could you indicate how ***useful*** you find the communicated information in your decision making as an investor.

(i) Information on the organisation:	NO	YES	Not at all useful 1	Not very useful 2	Somewhat useful 3	Very useful 4
• Work objectives and performance	☐	☐	☐	☐	☐	☐
• operating and technical instruction	☐	☐	☐	☐	☐	☐
• Health and safety at work	☐	☐	☐	☐	☐	☐
• Information on personnel (Who the key positions are)	☐	☐	☐	☐	☐	☐
• Working conditions	☐	☐	☐	☐	☐	☐
• Supervision and management	☐	☐	☐	☐	☐	☐
• Administrative procedures	☐	☐	☐	☐	☐	☐
• Training and development	☐	☐	☐	☐	☐	☐
• Development in technology and methods	☐	☐	☐	☐	☐	☐
• Equal opportunities	☐	☐	☐	☐	☐	☐
• Social and welfare facilities	☐	☐	☐	☐	☐	☐
(ii) Marketing information :						
• Company Market Share	☐	☐	☐	☐	☐	☐
• Company Market Segment	☐	☐	☐	☐	☐	☐
• Mergers and Acquisitions	☐	☐	☐	☐	☐	☐
• Investment	☐	☐	☐	☐	☐	☐
• Details of products and services	☐	☐	☐	☐	☐	☐
• Future Plans on development	☐	☐	☐	☐	☐	☐

C. Consultation/Two-way communication with employees :

There are various ways of two-way communication and consultation with institutional investors. Consultation or two-way communication provide institutional investors with the opportunity to express their views and what they expect from the company as well as giving the managers the opportunity to inform their investors of the impediments in achieving certain objectives.

(i) Dialogue Circles :

A dialogue circle (or sometimes called a focal group) consists of investors' representatives. These representatives identify the areas in which improvements can be made. They then present proposals to the top management.

- Do you have dialogue circles for any of the public limited companies you have major holdings in, i.e. 3% or more?

Yes ☐ **No** ☐

If YES.

- Could you specify the companies for which you have a dialogue circle?

1. ....
2. ....
3. ....
4. ....

- Could you indicate ***how useful*** you find the dialogue/focus groups in expressing your views for each of the companies?

	Not at all useful	Not very useful	Somewhat useful	very useful
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

- How often do you have your meetings?

	Once a year	Twice a year	Four times a year	More
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

If NO.

- Could you indicate how ***useful*** you would find dialogue circles in communicating your views to the top management.

Not at all useful	Not very useful	Somewhat useful	Very useful
☐	☐	☐	☐

(ii) Joint consultation :

Joint consultation takes place between the top management representative and the investors' representatives who come together on regular basis to discuss issues of mutual concern. However, consultation does not require companies to accept the views offered.

- Do you have joint consultation with any of the public limited companies you have major holdings in, i.e. 3% or more?

Yes ☐ **No** ☐

If YES.

- Could you specify the companies with which you have joint consultation?

1. ....
2. ....
3. ....
4. ....

- Could you indicate ***how useful*** you find joint consultation in expressing your views for each of the companies?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

- How often do you have your meetings?

	Once a year	Twice a year	Four times a year	More
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

If NO,

- Could you indicate how ***useful*** you think the role of consultation would be in improving your investment decision making?

Not at all useful	Not very useful	Somewhat useful	Very useful
☐	☐	☐	☐

(iv) ***Attitude survey :***

- Do you receive any attitude surveys asking your views and opinions from any of the public limited companies you have major holdings in, i.e. 3% or more?

Yes ☐ **No** ☐

If YES.

- Could you specify the companies for which you receive attitude surveys?

1. ....
2. ....
3. ....
4. ....

- Could you indicate ***how well structured*** you find these surveys as a systematic means for the management to investigate the opinions and views of investors on issues of specific relevance?

	Not at all well structured	Not very well structured	Somewhat structured	Very well structured
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

- How ***often*** do you receive the surveys?

	Once a year	Twice a year	Four times a year	More
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

(v) Suggestion schemes :

- Is there any suggestion schemes for any of the public limited companies you have major holdings in, i.e. 3% or more?

Yes ☐ **No** ☐

If YES.

- Could you specify the companies for which you have suggestion schemes?

1. ....
2. ....
3. ....
4. ....

- Could you indicate ***how useful*** you find the suggestion schemes in putting your views and ideas forward?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Company 1	☐	☐	☐	☐
Company 2	☐	☐	☐	☐
Company 3	☐	☐	☐	☐
Company 4	☐	☐	☐	☐

Your co-operation in completing this questionnaire is very much appreciated

Please tick the box if you wish to receive a copy of the findings ☐

Company's Name ....

Please return to:

Professor J P Dunne,
Business School,
Middlesex University,
The Burroughs,
Hendon,
London, NW4 4BT

APPENDIX 4G

Letter to Trade Unions' Secretary General

Date

Dear Name,

We are writing for your assistance in a research project we are directing at the Business School on the disclosure of non-financial information by major UK companies. The project is investigating one of the most important changes currently taking place in corporate behaviour, namely the increasing concern of companies and trade unions with effective communication and consultation between companies and major stakeholders' representatives. This was underlined in "Your Stake at Work", a report published by the TUC in 1996.

Although we appreciate that you will receive many requests for assistance from researchers we believe this request is especially deserving of your attention. One area of interest from this research is a possible link between recognition of trade unions for collective bargaining purposes and effective communication and consultation policies. Another is the comparison between the management and investor views on these matters with those of the trade union representatives. Without union involvement in this survey only the two dominant stakeholders perspectives would be recorded.

Our research aims to cover twenty major UK companies. All that we request is that you, as General Secretary, provide us with the names and work addresses of the most senior trade union representative, if any, at the main site of each company listed on the attached sheet. If for any reason that information is not readily available then please supply the name and work address of the Branch Secretary concerned.

Please arrange for the completion and return of the attached list of companies in the sample. A copy of the questionnaire is enclosed for information only. Once we have the details requested we will write direct and ask your representative to complete the questionnaire. All replies will be treated in confidence and no individual company or union details will be disclosed without permission. If you wish, we will also send a report on the findings on completion of the study.

May we take the opportunity of thanking you in advance for your co-operation in this matter.

Yours sincerely,

Name

Communication and Consultation with Employees' Representative

Survey Questionnaire

Project On The Disclosure of Non-Financial Information by UK Companies

MIDDLESEX UNIVERSITY
BUSINESS SCHOOL

A. Trade Union Recognition :

- Could you indicate if the company recognizes trade unions on the following issues:

	YES	NO
• Provision of information	☐	☐
• Consultation (Joint Consultive Committees)	☐	☐
• Collective Bargaining	☐	☐
Other issues *(Please specify)*:		
1.	☐	☐
2.	☐	☐
3.	☐	☐

B. Methods of Communication:

- Which methods of communication are used in your company to communicate with you? *(Please tick as appropriate)*

	Method used by company	Method Preferred by employees
Face-to-face methods:		
• Group Meetings	☐	☐
• Cascade networks	☐	☐
• Large-scale meetings	☐	☐
• Inter-departmental briefings	☐	☐
Written Methods:		
• Company Handbooks	☐	☐
• Employees information notes/reports	☐	☐
• House journals	☐	☐
• Newsletters	☐	☐
• Departmental Bulletins	☐	☐
• Notices	☐	☐
• Individual letters to all employees	☐	☐
Other Methods:		
• Information points	☐	☐
• Audio-visual aids	☐	☐
• Electronic mail	☐	☐

- Could you specify if there are any other method/(s) of communication that either your company uses or you prefer the company to use.

....

....

C. Different Types of Information Communicated :

There are different types of information that companies provide their employees with. Does your company provide any information on any of the following non-financial categories; if the answer is YES could you indicate how *informative* you find each information item:

(i) Information the organization and the organization:	NO	YES	Not at all informative 1	Not very informative 2	Somewhat informative 3	Very informativ 4
• Work objectives and performance	☐	☐	☐	☐	☐	☐
• Operating and technical instruction	☐	☐	☐	☐	☐	☐
• Health and safety at work	☐	☐	☐	☐	☐	☐
• Information on personnel (Who the key positions are)	☐	☐	☐	☐	☐	☐
• Working conditions	☐	☐	☐	☐	☐	☐
• Supervision and management	☐	☐	☐	☐	☐	☐
• Administrative procedures	☐	☐	☐	☐	☐	☐
• Training and development	☐	☐	☐	☐	☐	☐
• Development in technology and methods	☐	☐	☐	☐	☐	☐
• Equal opportunities	☐	☐	☐	☐	☐	☐
• Social and welfare facilities	☐	☐	☐	☐	☐	☐
(ii) Marketing Information :						
• Company Market Share	☐	☐	☐	☐	☐	☐
• Company Market Segment	☐	☐	☐	☐	☐	☐
• Mergers and Acquisitions	☐	☐	☐	☐	☐	☐
• Investment	☐	☐	☐	☐	☐	☐
• Details of products and services	☐	☐	☐	☐	☐	☐
• Future Plans on development	☐	☐	☐	☐	☐	☐

D. Consultation/ Two-way communication with employees:

Consultation with employees is legally required on certain issues, e.g. health and safety, redundancies, business transfers and occupational pensions. By definition, consultation requires a free exchange of ideas and views affecting the interests of employees and those of the organization. However, consultation does not require the company to negotiate on issues raised or even accept views offered.

(i) Quality Circles :

A quality circle is a group of people within an organization who meet together on a regular basis to identify, analyse and solve problems on quality, productivity, or other aspects of daily working life using problems solving techniques.

- Do you have any quality circles in your company? Yes ☐ No ☐

If YES

- How *useful* do you find them as mediums of exchanging ideas and views with the top managers?

Not at all useful	Not very useful	Somewhat useful	Very useful
☐	☐	☐	☐

- How *regularly* do you have your meetings?

Once a year	Twice a year	Four times a year	More
☐	☐	☐	☐

<u>*If NO*</u>

- Are you willing to take part in quality circles?

Yes ☐ **No** ☐

<u>*If YES*</u>

- Could you indicate how *useful* you would find the role of dialogue circles in communicating with the top management?

Not at all useful	Not very useful	Somewhat useful	Very useful
☐	☐	☐	☐

(ii) Training programmes :

Well-designed training courses are a useful way of giving employees factual information about their employment. Training events can provide explanations of what is happening in the organization, opportunities for questions to be put to management and answers to be given on issues raised by course members.

- Do you have any training programmes on staff development which you have attended within your organization?

Yes ☐ **No** ☐

<u>*If YES.*</u>

- Could you indicate how *well designed* you find the training programmes in helping the employees to have a better understanding of their roles and responsibilities?

Not well designed at all designed	Not very well designed	Somewhat well designed	Very well
☐	☐	☐	☐

(iii) Joint consultative committees :

Joint consultative committees (JCC), or work councils as they are sometimes known, have long been used as a method of employees consultation. The committees are made up of managers and employee representatives who also come together on regular basis to discuss issues of mutual concern.

- Do you have any joint consultative committees in your company? **Yes** ☐ **No** ☐

f YES

- Could you indicate if any of the following issues are consulted with you in a joint consultation committee.

	YES	NO
Working conditions	☐	☐
New ways of working	☐	☐
Output and quality	☐	☐
Training	☐	☐
Health and safety	☐	☐
New equipment	☐	☐
Staffing levels	☐	☐
Welfare	☐	☐
Pay-related issues	☐	☐

- Could you specify if there are any other issues that you are consulted about.

....

....

- Could you indicate how *useful* you find the consultation on each issue.

	Not at all useful	Not very useful	Somewhat useful	Very useful
• Working conditions	☐	☐	☐	☐
• New ways of working	☐	☐	☐	☐
• Output and quality	☐	☐	☐	☐
• Training	☐	☐	☐	☐
• Health and safety	☐	☐	☐	☐
• New equipment	☐	☐	☐	☐
• Staffing levels	☐	☐	☐	☐
• Welfare	☐	☐	☐	☐
• Pay-related issues	☐	☐	☐	☐

- Could you indicate how *often* you are consulted on each issue?

	Once a year	Twice a year	Four times a year	More
• Working conditions	☐	☐	☐	☐
• New ways of working	☐	☐	☐	☐
• Output and quality	☐	☐	☐	☐
• Training	☐	☐	☐	☐
• Health and safety	☐	☐	☐	☐
• New equipment	☐	☐	☐	☐
• Staffing levels	☐	☐	☐	☐
• Welfare	☐	☐	☐	☐
• Pay-related issues	☐	☐	☐	☐

iv) Attitude survey :

- Do you have any attitude surveys in your organization? Yes ☐ No ☐

If YES

- Could you indicate which one of the following issues are covered in the attitude survey.

	YES	NO
• Working conditions	☐	☐
• New ways of working	☐	☐
• Output and quality	☐	☐
• Training	☐	☐
• Health and safety	☐	☐
• New equipment	☐	☐
• Staffing levels	☐	☐
• Welfare	☐	☐
• Pay-related issues	☐	☐

- Could you indicate how ***well structured*** these surveys are in providing a systematic means for management to investigate the opinions and views of employees on each of the following issues ?

	Not at all well Structured	Not very well Structured	Somewhat Structured	Very well Structured
• Working conditions	☐	☐	☐	☐
• New ways of working	☐	☐	☐	☐
• Output and quality	☐	☐	☐	☐
• Training	☐	☐	☐	☐
• Health and safety	☐	☐	☐	☐
• New equipment	☐	☐	☐	☐
• Staffing levels	☐	☐	☐	☐
• Welfare	☐	☐	☐	☐
• Pay-related issues	☐	☐	☐	☐

- How ***often*** are the attitude surveys carried out?

	Once a year	Twice a year	Four times a year	More
• Working conditions	☐	☐	☐	☐
• New ways of working	☐	☐	☐	☐
• Output and quality	☐	☐	☐	☐
• Training	☐	☐	☐	☐
• Health and safety	☐	☐	☐	☐
• New equipment	☐	☐	☐	☐
• Staffing levels	☐	☐	☐	☐
• Welfare	☐	☐	☐	☐
• Pay-related issues	☐	☐	☐	☐

- ***(v) Suggestion schemes :***

- Could you indicate if there is a suggestion scheme for any of the following criteria?

	YES	NO
Methods of working	☐	☐
Increasing productivity	☐	☐
Cutting costs	☐	☐
Pay-related issues	☐	☐
Any other aspect of the work environment which might benefit the organization and/or its work force	☐	☐

If YES

- Could you indicate how ***useful*** you find the scheme?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Methods of working	☐	☐	☐	☐
Increasing productivity	☐	☐	☐	☐
Cutting costs	☐	☐	☐	☐
Pay-related issues	☐	☐	☐	☐
Any other aspect of the work environment which might benefit the organization and/or its work force	☐	☐	☐	☐

Your co-operation in completing this questionnaire is very much appreciated

Name of Your Union : ....

Name of Your Company: ....

Could you specify which group of employees you are representing? ....

....

If you wish to receive a copy of the findings, you can contact us at the following address:

Professor J Paul Dunne,
Business School,
Middlesex University,
The Burroughs, Hendon,
London NW4 4BT.
Tel : 0181-362-6825

APPENDIX 4H

t-tests for independent samples of RESPONSE/NON-RESPONSE

Variable	Number of Cases	Mean	SD	SE of Mean
TOTAL NUMBER OF EMPLOYMENT				
'non-respondents'	44	48423.9545	52301.632	7884.768
respondents	16	51219.0000	28561.608	7633.411

Mean Difference = -2795.0455

Levene's Test for Equality of Variances: F= .343 P= .560

t-test for Equality of Means

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	-.19	56	.850	14683.313	(-32215.9, 26625.86)
Unequal	-.25	41.32	.800	10974.449	(-24963.5, 19373.41)

Variable	Number of Cases	Mean	SD	SE of Mean
PROFIT AND LOSS				
'non-respondents'	44	998528.0222	1642236.64	244810.183
respondents	16	1443500.0000	1475659.79	394386.668

Mean Difference = -444971.9778

Levene's Test for Equality of Variances: F= .134 P= .716

t-test for Equality of Means

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	-.91	57	.369	491403.597	(-1429214, 539270.5)
Unequal	-.96	23.90	.347	464190.553	(-1403242, 513298.5)

t-tests for independent samples of RESPONSE response/non-response

Variable	Number of Cases	Mean	SD	SE of Mean
SALE				
'non-respondents'	44	6564005.1333	9736136.28	1451377.50
respondents	16	5030514.3571	2401959.30	641950.625

Mean Difference = 1533490.7762

Levene's Test for Equality of Variances: F= 3.050 P= .086

t-test for Equality of Means

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	.58	57	.564	2641200.856	(-3756626, 6823607)
Unequal	.97	55.69	.338	1587008.904	(-1646394, 4713375)

Variable	Number of Cases	Mean	SD	SE of Mean
MANAHERIAL EFFICIENCY (PROFIT/TOTAL NUMBER OF EMPLOYEES)				
'non-respondents'	44	29.7145	46.377	6.992
respondents	16	29.0472	22.965	6.138

Mean Difference = .6673

Levene's Test for Equality of Variances: F= .984 P= .326

t-test for Equality of Means

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	.05	56	.959	12.924	(-25.228, 26.563)
Unequal	.07	45.48	.943	9.303	(-18.075, 19.410)

t-tests for independent samples of RESPONSE response/non-response

Variable	Number of Cases	Mean	SD	SE of Mean
MANGERIAL EFFICIENCY (SALES PER EMPLOYEES)				
'non-respondents'	44	162.9955	179.736	27.096
respondents	16	104.9819	25.888	6.919

Mean Difference = 58.0136

Levene's Test for Equality of Variances: F= 4.778 P= .033

t-test for Equality of Means

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	1.20	56	.236	48.479	(-39.124, 155.152)
Unequal	2.07	48.11	.043	27.966	(1.772, 114.255)

APPENDIX 4I

Mann-Whitney Test for Non-Financial Characteristics

	VAR00001	N	Mean Rank	Sum of Ranks
NGSCORE95	.00	41	25.67	1052.50
	1.00	12	31.54	378.50
	Total	53		
GSCORE95	.00	41	26.94	1104.50
	1.00	12	27.21	326.50
	Total	53		
TSC95	.00	41	25.63	1051.00
	1.00	12	31.67	380.00
	Total	53		

Notes: '0' stands for non-respondents, '1' stands for respondents
NGSC stands for non-governance scores.
GSC for governance scores
TSC stands for total scores

Test Statistics

	NGSCORE95	GSCORE95	TSC95
Mann-Whitney U	191.500	243.500	190.000
Wilcoxon W	1052.500	1104.500	1051.000
Z	-1.170	-.054	-1.191
Asymp. Sig. (2-tailed)	.242	.957	.234
a Grouping Variable: VAR00001			

APPENDIX 4J

TABLE 4J, LOGIT REGRESSION RESULTS

Variables	Co-efficient	df	Sig	R^2
Stage 1				
Regression 1				
G95	-1.-1.3717	1	0.672	0.000
Constant	-0.4190	1	0.8442	
Regression 2				
NGSc95	0.5218	1	0.7411	0.000
Constant	-1.6276	1	0.0851	
Regression 3				
G95	-1.7595	1	0.6061	0.000
NGSc95	0.6419	1	0.6988	0.00
Constant	-0.5215	1	0.8092	
Stage 2				
Regression 4				
G95	-1.4177	1	0.6872	0.000
NGSc95	0.6471		0.6972	0.000
EMPL95	2.04E-06	1	0.7605	0.000
Constant	-0.8272	1	0.7221	0.000
Regression 5				
G95	-0.6654	1	0.8566	0.000
NGSc95	0.6585	1	0.6941	0.000
PLS95	1.82E-07	1	0.3451	0.000
Constant	-1.4854	1	0.5446	
Regression 6				
G95	-1.8377	1	0.5952	0.000
NGSc95	0.8169	1	0.6305	0.000
SALE95	-2.1E-08	1	0.6588	0.000
Constant	-0.4365	1	0.8436	
Regression 7				
G95	-1.6976	1	0.6174	0.000
NGSc95	0.7069	1	0.6691	0.000
PLEMPL95	-0.0009	1	0.9134	0.000
Constant	-0.5449	1	0.8019	
Regression 8				
G95	-0.9852	1	0.7749	0.000
NGSc95	0.9210	1	0.5855	0.000
SALEMPLS95	-0.0041	1	0.3529	0.000
Constant	-0.6234	1	0.7826	0.000

Notes: Abbreviations:

G95	:	Governance scores for 1995
NG95	:	Non-governance scores for 1995
PL95	:	Profit or Loss for 1995
EMPL95	:	Total number of employees in 1995
SALES95	:	Total sales for 1995
SALEMPLS95	:	Total sales per employees (managerial efficiency)
PLEMPL95	:	Profit per employees (managerial efficiency)

APPENDIX 5A

TABLE 5A INDUSTRIAL CATEGORY CLASSIFICATION – 1995

COMPANY	INDUST	CINDUST	A	B
1. RTZ	Extractive Industries	Mineral Extraction	1	1
2. Ultramar Plc	Mineral Extraction	Mineral Extraction	1	1
3. Burmah Castrol Plc	Oil integrated	Mineral Extraction	1	1
4. Shell (Transport and Trading Co.) Plc	Oil integrated	Mineral Extraction	1	1
5. British Petroleum Plc	Oil integrated	Mineral Extraction	1	1
6. Beazer Plc	Building & Construction	General Industries	2	1
7. AMEC Plc	Building & Construction	General Industries	2	1
8. Imperial Chemical Industries Plc	Chemicals	General Industries	2	1
9. BOC Group Plc	Chemicals	General Industries	2	1
10. BTR Plc	Diversified Industries	General Industries	2	1
11. Hanson Plc	Diversified Industries	General Industries	2	1
12. Lonrho Plc	Diversified Industries	General Industries	2	1
13. Trafalgar House Plc	Diversified Industries	General Industries	2	1
14. Harrisons & Crossfield Plc	Diversified Industries	General Industries	2	1
15. General Electric Company Plc	Electronics	General Industries	2	1
16. Racal Electronics Plc	Electronics	General Industries	2	1
17. British Steel Plc	Engineering	General Industries	2	1
18. British Aerospace	Engineering	General Industries	2	1
19. GKN Plc	Engineering	General Industries	2	1
20. Rolls-Royce Plc	Engineering	General Industries	2	1
21. Lucas Industries Plc	Engineering	General Industries	2	1
22. Johnson Mathey Plc	Engineering	General Industries	2	1
23. BICC Plc	Engineering	General Industries	2	1
24. Hawker Plc	Engineering	General Industries	2	1
25. Tarmac Plc	Merchanding	General Industries	2	1
26. Piklington Plc	Merchanding	General Industries	2	1
27. Wolseley Plc	Merchanding	General Industries	2	1
28. Redland Plc	Merchanding	General Industries	2	1
29. Berisford International Plc	Merchanding	General Industries	2	1
30. RMC Group Plc	Merchanding	General Industries	2	1
31. Bunzl Plc	Paper, Packaging	General Industries	2	1
32. Wellcome Plc	Pharmaceutical	General Industries	2	1
33. Glaxo Holdings Plc	Pharmaceutical	General Industries	2	1
34. Zeneca Plc	Pharmaceuticals	General Industries	2	1
35. Cortaulds Plc	Textile	General Industries	2	1
36. National Power Plc	Electricity	Utilities	5	1
37. Powergen Plc	Electricity	Utilities	5	1
38. British Gas Plc	Gas Distribution	Utilities	5	1
39. Whitbread Plc	Breweries	Consumer Goods	3	2

COMPANY	INDUST	CINDUST	A	B
40. Guinness Plc	Spirit, Wine & Ciders	Consumer Goods	3	2
41. Bass Plc	Breweries	Consumer Goods	3	2
42. Grand Metropolitan Plc	Spirit, Wine & Ciders	Consumer Goods	3	2
43. Allied Domecq Plc	Spirit, Wine & Ciders	Consumer Goods	3	2
44. Cadbury Schweppes Plc	Food Producer	Consumer Goods	3	2
45. Northern Foods Plc	Food Producer	Consumer Goods	3	2
46. Hillsdown Holding Plc	Food Producer	Consumer Goods	3	2
47. Booker Plc	Food Producer	Consumer Goods	3	2
48. Dalgety Plc	Food Producer	Consumer Goods	3	2
49. Unilever Plc	Food Producer	Consumer Goods	3	2
50. Tale & Lyle Plc	Food Producer	Consumer Goods	3	2
51. Rank Hovis Plc	Food Producer	Consumer Goods	3	2
52. Unigate Plc	Food producer	Consumer Goods	3	2
53. United Biscuits Plc	Food producer	Consumer Goods	3	2
54. Associated British Foods Plc	Food producer	Consumer Goods	3	2
55. Reckitt & Colman Plc	Health Care	Consumer Goods	3	2
56. B.A.T Industries Plc	Tobacco	Consumer Goods	3	2
57. Inchcape Plc	Distributors	Services	4	2
58. Lex Industry Plc	Distributors	Services	4	2
59. Tesac Plc	Food Retailers	Services	4	2
60. Sainsbury (J) Plc	Food Retailing	Services	4	2
61. Kiwi Save Group Plc	Food Retailing	Services	4	2
62. Forte Plc	Hotel & Leisure	Services	4	2
63. Rank Organization Plc	Hotel & Leisure	Services	4	2
64. Ladbrokes Group Plc	Hotel & Leisure	Services	4	2
65. Reed International Plc	Media	Services	4	2
66. WPP Plc	Media	Services	4	2
67. Granada Group Plc	Media	Services	4	2
68. Kingfisher Plc	Retailers	Services	4	2
69. Marks & Spencer Plc	Retailers	Services	4	2
70. Boots Company Plc	Retailers	Services	4	2
71. Great Universal Plc	Retailers	Services	4	2
72. Burton Group Plc	Retailers	Services	4	2
73. Dioxins Group Plc	Retailers	Services	4	2
74. Ads Group Plc	Retailers	Services	4	2
75. Sears Plc	Retailers	Services	4	2
76. BET Plc	Support Services	Services	4	2
77. Peninsular and Oriental Steam Navigation Plc	Transport	Services	4	2
78. NFC Plc	Transport	Services	4	2
79. British Airways Plc	Transport	Services	4	2
80. British Telecommunication Plc	Communications	Utilities	5	2
81. Cable & Wireless Plc	Communications	Utilities	5	2

Notes: **A** Five Industrial Categories classified according to "FTSE Actuaries Classification Definitions", **B** Two Industrial Categories

APPENDIX 5B

TABLE 5B RE-CATEGORIZATION OF NON-FINANCIAL SCORES

TSc85	CTSc85	TSc90	CTSc90	TSc95	CTSc95	NGSc85	CNGSc85	NGSc90	CNGSc90	NGSc95	CNGSc95	GSc85	CGSc85	GSc90	CGSc90	GSc95	CGSc95
0	1	0.17	1	0.28	1	0	1	0	1	0.1	1	0	1	0	1	0.385	1
0	1	0.17	1	0.29	1	0	1	0	1	0.1	1	0	1	0	1	0.385	1
0.038	1	0.18	1	0.34	1	0	1	0	1	0.1	1	0	1	0.154	1	0.462	1
0.038	1	0.19	1	0.4	1	0	1	0.091	1	0.1	1	0.077	1	0.231	1	0.462	1
0.038	1	0.21	1	0.43	1	0	1	0.091	1	0.2	1	0.077	1	0.231	1	0.5	1
0.038	1	0.21	1	0.43	1	0	1	0.091	1	0.3	1	0.077	1	0.25	1	0.538	1
0.038	1	0.22	1	0.46	1	0	1	0.091	1	0.3	1	0.077	1	0.25	1	0.538	1
0.039	1	0.25	1	0.46	1	0	1	0.091	1	0.3	1	0.077	1	0.25	1	0.538	1
0.039	1	0.26	1	0.48	1	0	1	0.091	1	0.3	1	0.077	1	0.25	1	0.538	1
0.039	1	0.26	1	0.5	1	0	1	0.091	1	0.3	1	0.077	1	0.308	1	0.538	1
0.077	1	0.27	1	0.5	1	0	1	0.091	1	0.308	1	0.077	1	0.333	1	0.54	1
0.088	1	0.28	1	0.51	1	0	1	0.1	1	0.4	1	0.077	1	0.333	1	0.571	1
0.088	1	0.3	1	0.51	1	0	1	0.1	1	0.4	1	0.077	1	0.333	1	0.615	1
0.089	1	0.3	1	0.51	1	0	1	0.1	1	0.4	1	0.077	1	0.333	1	0.615	1
0.115	2	0.3	1	0.52	1	0	1	0.182	1	0.4	1	0.077	1	0.333	1	0.615	1
0.115	2	0.3	1	0.52	1	0	1	0.182	1	0.4	1	0.077	1	0.385	1	0.615	1
0.115	2	0.31	1	0.52	1	0	1	0.182	1	0.4	1	0.077	1	0.385	1	0.615	1
0.115	2	0.31	1	0.55	1	0	1	0.182	1	0.4	1	0.154	1	0.385	1	0.615	1
0.115	2	0.32	1	0.55	1	0	1	0.182	1	0.4	1	0.154	1	0.385	1	0.615	1
0.115	2	0.33	1	0.56	1	0	1	0.182	1	0.5	1	0.154	1	0.385	1	0.615	1
0.116	2	0.34	1	0.56	1	0	1	0.182	1	0.5	1	0.231	1	0.385	1	0.615	1
0.127	2	0.34	1	0.56	1	0	1	0.182	1	0.5	1	0.231	1	0.385	1	0.615	1
0.138	2	0.34	1	0.56	1	0	1	0.2	1	0.5	1	0.231	1	0.4	1	0.615	1
0.15	2	0.35	1	0.57	1	0	1	0.273	1	0.5	1	0.231	1	0.417	1	0.615	1
0.154	2	0.35	1	0.57	1	0	1	0.273	1	0.5	1	0.231	1	0.417	1	0.615	1
0.154	2	0.35	1	0.57	1	0	1	0.364	1	0.5	1	0.231	1	0.417	1	0.615	1
0.154	2	0.36	1	0.58	1	0	1	0.364	1	0.5	1	0.231	1	0.417	1	0.615	1

TSc85	CTSc85	TSc90	CTSc90	TSc95	CTSc95	NGSc85	CNGSc85	NGSc90	CNGSc90	NGSc95	CNGSc95	GSc85	CGSc85	GSc90	CGSc90	GSc95	CGSc95
0.154	2	0.38	1	0.6	2	0	1	0.364	1	0.5	1	0.231	1	0.417	1	0.615	1
0.154	2	0.39	1	0.6	2	0.1	1	0.364	1	0.5	1	0.231	1	0.417	1	0.643	1
0.154	2	0.39	1	0.6	2	0.1	1	0.364	1	0.5	1	0.231	1	0.417	1	0.643	1
0.165	2	0.39	1	0.6	2	0.1	1	0.364	1	0.5	1	0.231	1	0.417	1	0.69	1
0.165	2	0.39	1	0.61	2	0.1	1	0.364	1	0.55	1	0.231	1	0.417	1	0.69	1
0.165	2	0.42	1	0.61	2	0.1	1	0.364	1	0.6	1	0.231	1	0.417	1	0.69	1
0.189	2	0.42	1	0.61	2	0.1	1	0.364	1	0.6	1	0.231	1	0.462	1	0.692	1
0.192	2	0.43	1	0.61	2	0.1	1	0.364	1	0.6	1	0.231	1	0.462	1	0.692	1
0.192	2	0.43	1	0.62	2	0.1	1	0.364	1	0.6	1	0.231	1	0.462	1	0.692	1
0.192	2	0.43	1	0.63	2	0.1	1	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.215	3	0.44	1	0.63	2	0.1	1	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.215	3	0.44	1	0.63	2	0.1	1	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.215	3	0.44	1	0.64	2	0.1	1	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.227	3	0.44	1	0.65	2	0.2	2	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.231	3	0.44	1	0.65	2	0.2	2	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.238	3	0.47	1	0.65	2	0.2	2	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.242	3	0.47	1	0.65	2	0.2	2	0.4	2	0.6	1	0.308	2	0.5	2	0.692	1
0.242	3	0.47	1	0.65	2	0.2	2	0.4	2	0.6	1	0.385	2	0.5	2	0.692	1
0.242	3	0.47	1	0.65	2	0.2	2	0.4	2	0.6	1	0.385	2	0.5	2	0.692	1
0.254	3	0.47	1	0.65	2	0.2	2	0.455	2	0.6	1	0.385	2	0.5	2	0.692	1
0.281	3	0.47	1	0.66	2	0.2	2	0.455	2	0.6	1	0.385	2	0.5	2	0.692	1
0.292	3	0.47	1	0.68	2	0.2	2	0.455	2	0.6	1	0.385	2	0.5	2	0.692	1
0.293	3	0.48	1	0.68	2	0.3	2	0.455	2	0.6	1	0.385	2	0.5	2	0.692	1
0.304	3	0.48	1	0.68	2	0.3	2	0.455	2	0.6	1	0.385	2	0.5	2	0.714	2
0.316	3	0.48	1	0.68	2	0.3	2	0.455	2	0.6	1	0.385	2	0.5	2	0.714	2
0.331	3	0.48	1	0.68	2	0.3	2	0.5	2	0.6	1	0.385	2	0.5	2	0.714	2
0.331	3	0.48	1	0.68	2	0.3	2	0.5	2	0.6	1	0.385	2	0.5	2	0.769	2
0.342	3	0.48	1	0.68	2	0.4	2	0.5	2	0.7	2	0.385	2	0.538	2	0.769	2
0.358	3	0.48	1	0.7	2	0.4	2	0.5	2	0.7	2	0.385	2	0.538	2	0.769	2
0.365	3	0.5	2	0.7	2	0.4	2	0.545	2	0.7	2	0.385	2	0.538	2	0.769	2
0.366	3	0.51	2	0.71	2	0.4	2	0.545	2	0.8	2	0.462	2	0.538	2	0.769	2

TSc85	CTSc85	TSc90	CTSc90	TSc95	CTSc95	NGSc85	CNGSc85	NGSc90	CNGSc90	NGSc95	CNGSc95	GSc85	CGSc85	GSc90	CGSc90	GSc95	CGSc95
0.392	3	0.51	2	0.71	2	0.4	2	0.545	2	0.8	2	0.462	2	0.583	2	0.769	2
0.392	3	0.52	2	0.71	2	0.5	2	0.545	2	0.8	2	0.462	2	0.583	2	0.769	2
0.392	3	0.52	2	0.75	2	0.5	2	0.545	2	0.8	2	0.462	2	0.583	2	0.769	2
0.442	3	0.52	2	0.75	2	0.5	2	0.545	2	0.8	2	0.462	2	0.583	2	0.769	2
0.481	3	0.52	2	0.76	2	0.5	2	0.545	2	0.8	2	0.462	2	0.583	2	0.769	2
0.481	3	0.52	2	0.78	2	0.5	2	0.545	2	0.8	2	0.615	2	0.583	2	0.769	2
		0.53	2	0.78	2			0.636	2	0.8	2			0.583	.2	0.769	2
		0.56	2	0.78	2			0.636	2	0.8	2			0.583	2	0.769	2
		0.59	2	0.78	2			0.636	2	0.8	2			0.615	2	0.769	2
		0.61	2	0.8	2			0.727	2	0.9	2			0.615	2	0.769	2
		0.61	2	0.8	2			0.8	2	0.9	2			0.667	2	0.769	2
		0.66	2	0.81	2			0.8	2	0.9	2			0.667	2	0.769	2
		0.66	2	0.87	2			0.818	2	0.9	2			0.667	2	0.846	2
		0.7	2					0.909	2	1	2			0.75	2		
		0.73	2					0.909	2					0.833	2		

APPENDIX 5C

TABLE 5C.1 CORPORATE SIZE CATEGORY – 1985

COMPANY	CSALE85	CTSALE85	CGSALE85	CSCSAL85
1. Burton Group Plc	Dead in 1985	NA	NA	NA
2. Marks & Spencer Plc	Dead in 1985	NA	NA	NA
3. Wolseley Plc	Dead in 1985	NA	NA	NA
4. Peninsular and Oriental Steam Navigation Plc	Dead in 1985	NA	NA	NA
5. Rank Organization Plc	Dead in 1985	NA	NA	NA
6. Berisford International Plc	Dead in 1985	NA	NA	NA
7. RTZ Plc	Dead in 1985	NA	NA	NA
8. BET Plc	Dead in 1985	NA	NA	NA
9. Great Universal Plc	Dead in 1985	NA	NA	NA
10. Allied Domecq Plc	Dead in 1985	NA	NA	NA
11. Bass Plc	Dead in 1985	NA	NA	NA
12. United Biscuits Plc	Dead in 1985	NA	NA	NA
13. Imperial chemical Industries Plc	Dead in 1985	NA	NA	NA
14. Unilever Plc	Dead in 1985	NA	NA	NA
15. Trafalgar House Plc	<£0.1b	1	1	1
16. Powergen Plc	≥£0.1b <£1.0b	1	1	1
17. Ladbroke Group Plc	≥£0.1b <£1.0b	1	1	1
18. British Gas Plc	≥£0.1b <£1.0b	1	1	1
19. WPP Plc	≥£0.1b <£1.0b	1	1	1
20. Tale & Lyle Plc	≥£0.1b <£1.0b	1	1	1
21. Glaxo Holdings Plc	≥£0.1b <£1.0b	1	1	1
22. Whitbread Plc	≥£0.1b <£1.0b	1	1	1
23. Asda Group Plc	≥£0.1b <£1.0b	1	1	1
24. Kwik Save Group Plc	≥£0.1b <£1.0b	1	1	1
25. General Electric Company Plc	≥£0.1b <£1.0b	1	1	1
26. Hanson Plc	≥£0.1b <£1.0b	1	1	1
27. Granada Group Plc	≥£0.1b <£1.0b	1	1	1
28. Grand Metropolitan Plc	≥£0.1b <£1.5b	1	1	1
29. Inchcape Plc	≥£0.1b <£1.5b	1	1	1
30. Cable and Wireless Plc	≥£0.1b <£1.5b	1	1	1
31. Zeneca Plc	≥£0.1b <£1.5b	1	1	1
32. Lonrho Plc	≥£0.1b <£1.5b	1	1	1
33. Booker Plc	≥£0.1b <£1.5b	1	1	1
34. Boots Company Plc	≥£0.1b <£1.5b	1	1	1
35. Racal Electronics Plc	≥£0.1b <£1.5b	1	1	1
36. Tarmac Plc	≥£0.1b <£1.5b	1	1	1
37. British Aerospace Plc	≥£0.1b <£1.5b	1	1	1
38. Forte Plc	≥£0.1b <£1.5b	1	1	1
39. Cortaulds Plc	≥£0.1b <£1.5b	1	1	1
40. Dixons Group Plc	≥£0.1b <£1.5b	1	1	1
41. LEX Industry Plc	≥£0.1b <£1.5b	1	1	1
42. Wellcome Plc	≥£0.1b <£1.5b	1	1	1

COMPANY	CSALE85	CTSALE85	CGSALE85	CSCSAL85
43. Lucas Industries Plc	≥£0.1b <£1.5b	1	1	1
44. GKN Plc	≥£0.1b <£1.5b	1	1	1
45. Rolls-Royce Plc	≥£0.1b <£1.5b	1	1	1
46. Dalgety Plc	≥£1.5b <£2.0b	1	2	2
47. Tesco Plc	≥£1.5b <£2.0b	1	2	2
48. BICC Plc	≥£1.5b <£2.0b	1	2	2
49. The "Shell" Transport and Trading Company Plc	≥£1.5b <£2.0b	1	2	2
50. BTR Plc	≥£1.5b <£2.0b	1	2	2
51. AMEC Plc	≥£1.5b <£2.0b	1	2	2
52. Bunzl Plc	≥£1.5b <£2.0b	1	2	2
53. Ultramar Plc	≥£1.5b <£2.0b	1	2	2
54. Reed International Plc	≥£1.5b <£2.0b	1	2	2
55. Harrisons & Crossfeild Plc	≥£1.5b <£2.0b	1	2	2
56. Beazer Plc	≥£1.5b <£2.0b	1	2	2
57. Rank Hovis Plc	≥£1.5b <£2.0b	1	2	2
58. Piklington Plc	≥£1.5b <£2.0b	1	2	2
59. RMC Group Plc	≥£1.5b <£2.0b	1	2	2
60. British Steel Plc	≥£2.0b <£2.5b	2	2	2
61. Sainsbury J Plc	≥£2.0b <£2.5b	2	2	2
62. British Petroleum Plc	≥£2.0b <£2.5b	2	2	2
63. National Power Plc	≥£2.0b <£2.5b	2	2	2
64. Hillsdown Holdings Plc	≥£2.0b <£2.5b	2	2	2
65. Burmah Castrol Plc	≥£2.0b <£2.5b	2	2	2
66. Cadbury Schweppes Plc	≥£2.0b <£2.5b	2	2	2
67. Johnson Mathey Plc	≥£2.5b <£3.0b	2	2	2
68. Unigate Plc	≥£2.5b <£3.0b	2	2	2
69. BOC Group Plc	≥£2.5b <£3.0b	2	3	2
70. Kingfisher Plc	≥£3.0b <£3.5b	2	3	2
71. B.A.T Industries Plc	≥£3.0b <£3.5b	2	3	2
72. Hawker Plc	≥£3.0b <£3.5b	2	3	2
73. Reckitt & Colman Plc	≥£3.0b <£3.5b	2	3	2
74. Redland Plc	≥£10.0b <£20.0b	2	3	2
75. British Telecommunication Plc	≥£10.0b <£20.0b	2	3	2
76. Associated British Foods Plc	≥£10.0b <£20.0b	2	3	2
77. Guinness Plc	≥£10.0b <£20.0b	2	3	2
78. Sears Plc	≥£10.0b <£20.0b	2	3	2
79. Northern Foods Plc	≥£10.0b <£20.0b	2	3	2
80. NFC Plc	≥£10.0b <£20.0b	2	3	2
81. British Airways Plc	≥£30.0b	2	3	2

TABLE 5C.2 CORPORATE SIZE CATEGORY – 1990

Company Name	CSALE90	CTSALE90	CGSALE90	CSCSAL90
1. Associated British Foods Plc	Dead in 1990	NA	NA	NA
2. Zeneca Plc	Dead in 1990	NA	NA	NA
3. National Power Plc	Dead in 1990	NA	NA	NA
4. Powergen Plc	Dead in 1990	NA	NA	NA
5. Cortaulds Plc	<£0.1b	1	1	1
6. WPP Plc	≥£0.1b <£1.0b	1	1	1
7. Granada Group Plc	≥£0.1b <£1.0b	1	1	1
8. Redland Plc	≥£0.1b <£1.0b	1	1	1
9. Rank Hovis Plc	≥£0.1b <£1.0b	1	1	1
10. Northern Foods Plc	≥£0.1b <£1.0b	1	1	1
11. Kwik Save Group Plc	≥£0.1b <£1.0b	1	1	1
12. Bunzl Plc	≥£0.1b <£1.0b	1	1	1
13. Wellcome Plc	≥£0.1b <£1.0b	1	1	1
14. Reckitt & Colman Plc	≥£0.1b <£1.5b	1	1	1
15. Johnson Mathey Plc	≥£0.1b <£1.5b	1	1	1
16. Racal Electronics Plc	≥£0.1b <£1.5b	1	1	1
17. Rank Organisation Plc	≥£0.1b <£1.5b	1	1	1
18. Ultramar Plc	≥£0.1b <£1.5b	1	1	1
19. Berisford International Plc	≥£0.1b <£1.5b	1	1	1
20. Burton Group Plc	≥£0.1b <£1.5b	1	1	1
21. NFC Plc	≥£0.1b <£1.5b	1	1	1
22. Dixons Group Plc	≥£0.1b <£1.5b	1	1	1
23. Harrisons & Crossfeild Plc	≥£0.1b <£1.5b	1	1	1
24. Wolseley Plc	≥£0.1b <£1.5b	1	1	1
25. LEX Industry Plc	≥£0.1b <£1.5b	1	1	1
26. Reed International Plc	≥£0.1b <£1.5b	1	1	1
27. Unigate Plc	≥£1.5b <£2.0b	1	2	1
28. Burmah Castrol Plc	≥£1.5b <£2.0b	1	2	1
29. Forte Plc	≥£1.5b <£2.0b	1	2	1
30. United Biscuits Plc	≥£1.5b <£2.0b	1	2	1
31. Sears Plc	≥£1.5b <£2.0b	1	2	1
32. Lucas Industries Plc	≥£1.5b <£2.0b	1	2	1
33. AMEC Plc	≥£1.5b <£2.0b	1	2	1
34. GKN Plc	≥£1.5b <£2.0b	1	2	1
35. Hawker Plc	≥£1.5b <£2.0b	1	2	1
36. Cable and Wireless Plc	≥£1.5b <£2.0b	1	2	1
37. Beazer Plc	≥£1.5b <£2.0b	1	2	1
38. Whitbread Plc	≥£1.5b <£2.0b	1	2	1
39. RMC Group Plc	≥£2.0b <£2.5b	2	2	2
40. BET Plc	≥£2.0b <£2.5b	2	2	2
41. Piklington Plc	≥£2.0b <£2.5b	2	2	2
42. Kingfisher Plc	≥£2.0b <£2.5b	2	2	2
43. Glaxo Holdings Plc	≥£2.0b <£2.5b	2	2	2
44. BOC Group Plc	≥£2.0b <£2.5b	2	2	2

Company Name	CSALE90	CTSALE90	CGSALE90	CSCSAL90
45. Great Universal Plc	≥£2.0b <£2.5b	2	2	2
46. Booker Plc	≥£2.0b <£2.5b	2	2	2
47. Boots Company Plc	≥£2.5b <£3.0b	2	2	2
48. Lonrho Plc	≥£2.5b <£3.0b	2	2	2
49. Inchcape Plc	≥£2.5b <£3.0b	2	2	2
50. Trafalgar House Plc	≥£2.5b <£3.0b	2	2	2
51. Cadbury Schweppes Plc	≥£2.5b <£3.0b	2	2	2
52. Tale & Lyle Plc	≥£2.5b <£3.0b	2	2	2
53. BICC Plc	≥£3.0b <£3.5b	2	2	2
54. Asda Group Plc	≥£3.0b <£3.5b	2	2	2
55. RTZ Plc	≥£3.0b <£3.5b	2	2	2
56. Tarmac Plc	≥£3.0b <£3.5b	2	2	2
57. Rolls-Royce Plc	≥£3.0b <£3.5b	2	2	2
58. Ladbroke Group Plc	≥£3.0b <£3.5b	2	2	2
59. Guinness Plc	≥£3.0b <£3.5b	2	2	2
60. Hillsdown Holdings Plc	≥£3.5b <£4.0b	2	2	2
61. Bass Plc	≥£3.5b <£4.0b	2	3	2
62. British Gas Plc	≥£4.0b <£4.5b	2	3	2
63. Dalgety Plc	≥£4.0b <£4.5b	2	3	2
64. Allied Domecq Plc	≥£4.0b <£4.5b	2	3	2
65. Marks & Spencer Plc	≥£4.5b <£5.0b	2	3	3
66. Grand Metropolitan Plc	≥£4.5b <£5.0b	2	3	3
67. Peninsular and Oriental Steam Navigation Plc	≥£4.5b <£5.0b	2	3	3
68. BTR Plc	≥£4.5b <£5.0b	2	3	3
69. Sainsbury J Plc	≥£4.5b <£5.0b	2	3	3
70. Tesco Plc	≥£4.5b <£5.0b	2	3	3
71. British Petroleum Plc	≥£4.5b <£5.0b	2	3	3
72. British Steel Plc	≥£4.5b <£5.0b	2	3	3
73. General Electric Company Plc	≥£4.5b <£5.0b	2	3	3
74. Hanson Plc	≥£4.5b <£5.0b	2	3	3
75. B.A.T Industries Plc	≥£5.0b <£10b	2	3	3
76. British Aerospace Plc	≥£5.0b <£10b	2	3	3
77. Imperial chemical Industries Plc	≥£5.0b <£10b	2	3	3
78. British Telecommunication Plc	≥£5.0b <£10b	2	3	3
79. Unilever Plc	≥£10.0b <£20.0b	2	3	3
80. The "Shell" Transport and Trading Company Plc	≥£10.0b <£20.0b	2	3	3
81. British Airways Plc	≥£20.0b <£29.99b	2	3	3

TABLE 5C.3 CORPORATE SIZE CATEGORY - 1995

Company Name	CSALE95	CTSALE95	CGSALE95	CSCSAL95
1. Ultramar Plc	Dead in 1995	NA	NA	NA
2. Wellcome Plc	Dead in 1995	NA	NA	NA
3. Hawker Plc	Dead in 1995	NA	NA	NA
4. Rank Organisation Plc	Dead in 1995	NA	NA	NA
5. Berisford International Plc	<£0.1b	1	1	1
6. Racal Electronics Plc	<£0.1b	1	1	1
7. Beazer Plc	<£0.1b	1	1	1
8. Cortaulds Plc	≥£0.1b <£1.0b	2	1	1
9. WPP Plc	≥£0.1b <£1.0b	2	1	1
10. Bunzel Plc	≥£0.1b <£1.5b	3	1	1
11. Lonrho Plc	≥£0.1b <£1.5b	3	1	1
12. AMEC Plc	≥£0.1b <£1.5b	3	1	1
13. Northern Foods Plc	≥£0.1b <£1.5b	3	1	1
14. Unigate Plc	≥£0.1b <£1.5b	3	1	1
15. Reed International Plc	≥£0.1b <£1.5b	3	1	1
16. Lex Industry Plc	≥£0.1b <£1.5b	3	1	1
17. Dixons Group Plc	≥£0.1b <£1.5b	3	1	1
18. BET Plc	≥£0.1b <£1.5b	3	1	1
19. Forte Plc	≥£0.1b <£1.5b	3	1	1
20. Burton Group Plc	≥£0.1b <£1.5b	3	1	1
21. Harrisons & Crossfeild Plc	≥£1.5b <£2.0b	4	1	1
22. Tarmac Plc	≥£1.5b <£2.0b	4	1	1
23. Johnson Mathey Plc	≥£1.5b <£2.0b	4	1	1
24. Whitbread Plc	≥£1.5b <£2.0b	4	1	1
25. Reckitt & Colman Plc	≥£1.5b <£2.0b	4	1	1
26. Rank Hovis Plc	≥£1.5b <£2.0b	4	1	1
27. NFC Plc	≥£1.5b <£2.0b	4	1	1
28. Granada Group Plc	≥£1.5b <£2.0b	4	1	1
29. Sears Plc	≥£1.5b <£2.0b	4	1	1
30. Redland Plc	≥£2.0b <£2.5b	5	2	2
31. GKN Plc	≥£2.0b <£2.5b	5	2	2
32. Lucas Industries Plc	≥£2.0b <£2.5b	5	2	2
33. Piklington Plc	≥£2.0b <£2.5b	5	2	2
34. Great Universal Plc	≥£2.0b <£2.5b	5	2	2
35. Kwik Save Group Plc	≥£2.0b <£2.5b	5	2	2
36. Powergen Plc	≥£2.0b <£2.5b	5	2	2
37. Burmah Castrol Plc	≥£2.5b <£3.0b	6	2	2
38. Allied Domecq Plc	≥£2.5b <£3.0b	6	2	2
39. Hillsdown Holdings Plc	≥£2.5b <£3.0b	6	2	2
40. United Biscuits Plc	≥£2.5b <£3.0b	6	2	2
41. Wolseley Plc	≥£3.0b <£3.5b	7	2	2
42. Trafalgar House Plc	≥£3.0b <£3.5b	7	2	2

Company Name	CSALE95	CTSALE95	CGSALE95	CSCSAL95
43. Rolls-Royce Plc	≥£3.0b <£3.5b	7	2	2
44. BOC Group Plc	≥£3.0b <£3.5b	7	2	2
45. Ladbroke Group Plc	≥£3.0b <£3.5b	7	2	2
46. National Power Plc	≥£3.0b <£3.5b	7	2	2
47. RMC Group Plc	≥£3.5b <£4.0b	8	2	2
48. BICC Plc	≥£3.5b <£4.0b	8	2	2
49. Booker Plc	≥£3.5b <£4.0b	8	2	2
50. Boots Company Plc	≥£3.5b <£4.0b	8	2	2
51. Zeneca Plc	≥£4.0b <£4.5b	9	2	2
52. British Steel Plc	≥£4.0b <£4.5b	9	2	2
53. Associated British Foods Plc	≥£4.0b <£4.5b	9	2	2
54. Dalgety Plc	≥£4.0b <£4.5b	9	2	2
55. Tale & Lyle Plc	≥£4.0b <£4.5b	9	2	2
56. Guinness Plc	≥£4.0b <£4.5b	9	2	2
57. Bass Plc	≥£4.0b <£4.5b	9	2	2
58. Cadbury Schweppes Plc	≥£4.0b <£4.5b	9	2	2
59. Kingfisher Plc	≥£4.0b <£4.5b	9	2	2
60. British Petroleum Plc	≥£4.5b <£5.0b	10	2	3
61. RTZ Plc	≥£4.5b <£5.0b	10	2	3
62. BTR Plc	≥£4.5b <£5.0b	10	2	3
63. General Electric Company Plc	≥£4.5b <£5.0b	10	2	3
64. British Aerospace Plc	≥£4.5b <£5.0b	10	2	3
65. Glaxo Holdings Plc	≥£4.5b <£5.0b	10	2	3
66. Grand Metropolitan Plc	≥£4.5b <£5.0b	10	2	3
67. Peninsular and Oriental Steam Navigation Plc	≥£4.5b <£5.0b	10	2	3
68. Asda Group Plc	≥£4.5b <£5.0b	10	2	3
69. Marks & Spencer Plc	≥£4.5b <£5.0b	10	2	3
70. Inchcape Plc	≥£4.5b <£5.0b	10	2	3
71. British Gas Plc	≥£4.5b <£5.0b	10	2	3
72. Cable & Wireless	≥£4.5b <£5.0b	10	2	3
73. Hanson Plc	≥£5.0b <£10b	11	2	3
74. Imperial Chemical Industries Plc	≥£5.0b <£10b	11	2	3
75. Tesco Plc	≥£5.0b <£10b	11	2	3
76. Sainsbury (J) Plc	≥£5.0b <£10b	11	2	3
77. British Telecommunication Plc	≥£5.0b <£10b	11	2	3
78. B.A.T Industries Plc	≥£5.0b <£10b	12	2	3
79. Shell (Transport and Trading Co.) Plc	≥£10.0b <£20.0b	13	2	3
80. Unilever Plc	≥£10.0b <£20.0b	13	2	3
81. British Airways Plc	≥£10.0b <£20.0b	13	2	3

APPENDIX 5D

TABLE 5D RE-CATEGORIZATION OF SIZE CATEGORIES FOR EACH NON-FINANCIAL SCORES

SALES85	CSALE85	CTSALE85	CGSALE85	CSCSAL85	SALES90	CSALE90	CTSALE90	CGSALE90	CSCSAL90	SALES95	CSALE95	CTSALE95	CGSALE95	CSCSAL95
3961	1.00	1.00	1.00	1.00	983800	1.00	1.00	1.00	1.00	403200	1.00	1.00	1.00	1.00
182000	2.00	1.00	1.00	1.00	1094400	2.00	1.00	1.00	1.00	413200	1.00	1.00	1.00	1.00
413200	2.00	1.00	1.00	1.00	1264100	2.00	1.00	1.00	1.00	950199	1.00	1.00	1.00	1.00
527145	2.00	1.00	1.00	1.00	1333100	2.00	1.00	1.00	1.00	1120000	2.00	1.00	1.00	1.00
551001	2.00	1.00	1.00	1.00	1390600	2.00	1.00	1.00	1.00	1426900	2.00	1.00	1.00	1.00
606700	2.00	1.00	1.00	1.00	1411500	2.00	1.00	1.00	1.00	1556900	3.00	1.00	1.00	1.00
630900	2.00	1.00	1.00	1.00	1445605	2.00	1.00	1.00	1.00	1646900	3.00	1.00	1.00	1.00
696269	2.00	1.00	1.00	1.00	1459100	2.00	1.00	1.00	1.00	1758500	3.00	1.00	1.00	1.00
751000	2.00	1.00	1.00	1.00	1468900	2.00	1.00	1.00	1.00	1761300	3.00	1.00	1.00	1.00
762379	2.00	1.00	1.00	1.00	1513600	3.00	1.00	1.00	1.00	1789000	3.00	1.00	1.00	1.00
787594	2.00	1.00	1.00	1.00	1577800	3.00	1.00	1.00	1.00	1878800	3.00	1.00	1.00	1.00
861500	2.00	1.00	1.00	1.00	1626900	3.00	1.00	1.00	1.00	1893000	3.00	1.00	1.00	1.00
954800	2.00	1.00	1.00	1.00	1761400	3.00	1.00	1.00	1.00	1930300	3.00	1.00	1.00	1.00
1041300	3.00	1.00	1.00	1.00	1763650	3.00	1.00	1.00	1.00	1962400	3.00	1.00	1.00	1.00
1106971	3.00	1.00	1.00	1.00	1771000	3.00	1.00	1.00	1.00	1966000	3.00	1.00	1.00	1.00
1135500	3.00	1.00	1.00	1.00	1771400	3.00	1.00	1.00	1.00	1971300	3.00	1.00	1.00	1.00
1187700	3.00	1.00	1.00	1.00	1785000	3.00	1.00	1.00	1.00	2047000	4.00	1.00	1.00	1.00
1188068	3.00	1.00	1.00	1.00	1794800	3.00	1.00	1.00	1.00	2143700	4.00	1.00	1.00	1.00
1197556	3.00	1.00	1.00	1.00	1801300	3.00	1.00	1.00	1.00	2177800	4.00	1.00	1.00	1.00
1226900	3.00	1.00	1.00	1.00	1847176	3.00	1.00	1.00	1.00	2200600	4.00	1.00	1.00	1.00
1244500	3.00	1.00	1.00	1.00	1949300	3.00	1.00	1.00	1.00	2240569	4.00	1.00	1.00	1.00
1255900	3.00	1.00	1.00	1.00	1973690	3.00	1.00	1.00	1.00	2352500	4.00	1.00	1.00	1.00
1266930	3.00	1.00	1.00	1.00	2040200	4.00	1.00	2.00	1.00	2381200	4.00	1.00	1.00	1.00
1272400	3.00	1.00	1.00	1.00	2048200	4.00	1.00	2.00	1.00	2471800	4.00	1.00	1.00	1.00
1313800	3.00	1.00	1.00	1.00	2091900	4.00	1.00	2.00	1.00	2482400	4.00	1.00	1.00	1.00
1344100	3.00	1.00	1.00	1.00	2150600	4.00	1.00	2.00	1.00	2503100	5.00	2.00	2.00	1.00
1363800	3.00	1.00	1.00	1.00	2218300	4.00	1.00	2.00	1.00	2664100	5.00	2.00	2.00	1.00
1412100	3.00	1.00	1.00	1.00	2229000	4.00	1.00	2.00	1.00	2676000	5.00	2.00	2.00	1.00
1444000	3.00	1.00	1.00	1.00	2264200	4.00	1.00	2.00	1.00	2796000	5.00	2.00	2.00	1.00
1494600	3.00	1.00	1.00	1.00	2305400	4.00	1.00	2.00	1.00	2885000	5.00	2.00	2.00	1.00

SALES85	CSALE85	CTSALE85	CGSALE85	CSCSAL85	SALES90	CSALE90	CTSALE90	CGSALE90	CSCSAL90	SALES95	CSALE95	CTSALE95	CGSALE95	CSCSAL95
1498900	3.00	1.00	1.00	1.00	2316300	4.00	1.00	2.00	1.00	2893600	5.00	2.00	2.00	1.00
1536100	4.00	1.00	2.00	2.00	2386401	4.00	1.00	2.00	1.00	2992100	5.00	2.00	2.00	1.00
1592000	4.00	1.00	2.00	2.00	2428300	4.00	1.00	2.00	1.00	3001100	6.00	2.00	2.00	2.00
1626700	4.00	1.00	2.00	2.00	2444200	4.00	1.00	2.00	1.00	3048500	6.00	2.00	2.00	2.00
1629300	4.00	1.00	2.00	2.00	2585900	5.00	2.00	2.00	2.00	3174800	6.00	2.00	2.00	2.00
1649481	4.00	1.00	2.00	2.00	2589300	5.00	2.00	2.00	2.00	3453200	6.00	2.00	2.00	2.00
1661100	4.00	1.00	2.00	2.00	2643900	5.00	2.00	2.00	2.00	3543900	7.00	2.00	2.00	2.00
1688300	4.00	1.00	2.00	2.00	2692900	5.00	2.00	2.00	2.00	3597000	7.00	2.00	2.00	2.00
1806400	4.00	1.00	2.00	2.00	2854000	5.00	2.00	2.00	2.00	3720700	7.00	2.00	2.00	2.00
1828473	4.00	1.00	2.00	2.00	2910000	5.00	2.00	2.00	2.00	3783868	7.00	2.00	2.00	2.00
1873800	4.00	1.00	2.00	2.00	2915000	5.00	2.00	2.00	2.00	3847600	7.00	2.00	2.00	2.00
1900900	4.00	1.00	2.00	2.00	2926300	5.00	2.00	2.00	2.00	3953000	7.00	2.00	22.00	2.00
1932200	4.00	1.00	2.00	2.00	3045700	6.00	2.00	2.00	2.00	4063000	8.00	2.00	2.00	2.00
1934165	4.00	1.00	2.00	2.00	3146000	6.00	2.00	2.00	2.00	4116199	8.00	2.00	2.00	2.00
1969200	4.00	1.00	2.00	2.00	3146100	6.00	2.00	2.00	2.00	4222898	8.00	2.00	2.00	2.00
2019400	5.00	2.00	2.00	2.00	3291400	6.00	2.00	2.00	2.00	4308102	8.00	2.00	2.00	2.00
2033100	5.00	2.00	2.00	2.00	3379500	6.00	2.00	2.00	2.00	4509602	9.00	2.00	2.00	2.00
2098582	5.00	2.00	2.00	2.00	3381400	6.00	2.00	2.00	2.00	4541000	9.00	2.00	2.00	2.00
2115200	5.00	2.00	2.00	2.00	3511000	7.00	2.00	2.00	2.00	4681000	9.00	2.00	2.00	2.00
2199600	5.00	2.00	2.00	2.00	3550200	7.00	2.00	2.00	2.00	4776000	9.00	2.00	2.00	2.00
2357800	5.00	2.00	2.00	2.00	3555000	7.00	2.00	2.00	2.00	4784000	9.00	2.00	2.00	2.00
2410800	5.00	2.00	2.00	2.00	3564100	7.00	2.00	2.00	2.00	4887699	9.00	2.00	2.00	2.00
2586200	6.00	2.00	2.00	2.00	3606600	7.00	2.00	2.00	2.00	4894000	9.00	2.00	2.00	2.00
2647700	6.00	2.00	2.00	2.00	3670000	7.00	2.00	2.00	2.00	4898000	9.00	2.00	2.00	2.00
2998700	6.00	2.00	2.00	2.00	3867000	7.00	2.00	2.00	2.00	4906602	9.00	2.00	2.00	2.00
3000400	7.00	2.00	3.00	2.00	4215199	8.00	2.00	3.00	2.00	5132801	10.00	2.00	3.00	3.00
3194300	7.00	2.00	3.00	2.00	4461000	8.00	2.00	2.00	2.00	5155000	10.00	2.00	3.00	3.00
3767000	7.00	2.00	3.00	2.00	4634199	9.00	2.00	3.00	2.00	5285301	10.00	2.00	3.00	3.00
3880600	7.00	2.00	3.00	2.00	4731000	9.00	2.00	3.00	2.00	5741000	10.00	2.00	3.00	3.00
5222398	12.00	2.00	3.00	2.00	4838000	9.00	2.00	3.00	2.00	5843000	10.00	2.00	3.00	3.00
5310797	12.00	2.00	3.00	2.00	4838000	9.00	2.00	3.00	2.00	6295898	10.00	2.00	3.00	3.00
5589500	12.00	2.00	3.00	2.00	5036398	10.00	2.00	3.00	3.00	6571102	10.00	2.00	3.00	3.00
7653000	12.00	2.00	3.00	2.00	5113000	10.00	2.00	3.00	3.00	6806500	10.00	2.00	3.00	3.00
10725000	12.00	2.00	3.00	2.00	5253801	10.00	2.00	3.00	3.00	6993263	10.00	2.00	3.00	3.00

SALES85	CSALE85	CTSALE85	CGSALE85	CSCSAL85	SALES90	CSALE90	CTSALE90	CGSALE90	CSCSAL90	SALES95	CSALE95	CTSALE95	CGSALE95	CSCSAL95
12525000	12.00	2.00	3.00	2.00	5401898	10.00	2.00	3.00	3.00	7177000	10.00	2.00	3.00	3.00
16693000	12.00	2.00	3.00	2.00	5527500	10.00	2.00	3.00	3.00	7177000	10.00	2.00	3.00	3.00
29240784	13.00	2.00	3.00	2.00	6742000	10.00	2.00	3.00	3.00	8025000	10.00	2.00	3.00	3.00
47156000	14.00	2.00	3.00	2.00	6930398	10.00	2.00	3.00	3.00	8601000	10.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	7153000	10.00	2.00	3.00	3.00	9778000	10.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	7983000	10.00	2.00	3.00	3.00	10101000	11.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	9394000	10.00	2.00	3.00	3.00	10269000	11.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	10540000	11.00	2.00	3.00	3.00	11184000	11.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	12315000	11.00	2.00	3.00	3.00	11357000	11.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	12906000	11.00	2.00	3.00	3.00	13893000	11.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	15027000	11.00	2.00	3.00	3.00	20470000	12.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	22258000	12.00	2.00	3.00	3.00	31516000	13.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	29574800	12.00	2.00	3.00	3.00	38179600	13.00	2.00	3.00	3.00
NA	NA	NA	NA	NA	41710992	13.00	2.00	3.00	3.00	50200000	13.00	2.00	3.00	3.00

APPENDIX 5E

701 Return on shareholders equity (%) : [(210 or 182)/[305-344+(312 or 311)]] * 100

703 Return on shareholders capital (%) : [(175-176-177-629-207)/(307-344+(312 or 311))] * 100

711 Trading profit margin (%) : [135/104]*100

713 Operating profit margin (%) : (137/104)*100

721 Turnover/assets employed : 104/(339 + 356 + 359 + 390 + 309)

723 Turnover/net current assets : 104/390

725 Stock ratio (days) : [364/104]*365

727 Debtors ratios (days) : (370/104)*100

729 Creditors ratio (days) : [(385)/(104-135)]*100

731 Capital gearing % : [(306 + 295 + 321 + 309)/(322 + 309 - 344- 928)]

733 Borrowing ratio : (295 + 321 + 309)/(305 + [312 or 311] - 344)

741 Working capital ratio : 376/389

742 Quick assets ratio : (376 - 364)/389

762 Sales per employees : (203/154)*100

763 Operating profit per employees : 137/219

764 Capital employed per employee : (322 + 309 -344)/219

Notes:

104 = Total sales
135 = Trading profit
137 = Operating profit - adjusted
154 = Published pre-tax profit
182 = Earned for ordinary -full tax
203 = Published Tax
210 = Earned for ordinary shares
219 = Total number of employees
295 = Subordinated debt
305 = Equity capital Reserves
306 = Preference capital
309 = Borrowings repayable within 1 year
311 = Deferred tax
312 = Total deferred tax
321 = Total loan capital
322 = Total capital employed
339 = Total Fixed Assets - net
344 = Total intangible assets
356 = Total investment, incl. associates
359 = Other assets
364 = Total stock and work in progress
370 = Total debtors and equivalent
376 = Total current assets
385 = Total creditors and equivalent
389 = Total current liabilities
390 = Net Current assets
801 = Total Revenue
802 = Turnover
805 = Total property income
928 = Future income tax benefits